Finalised Guidance

FG 25/3 The treatment of politically exposed persons for anti-money laundering purposes

07/07/2025 (Revised version published 15/07/2025 to add a bullet point to the 'Who should be treated as a PEP' section on page 12. This was intended to be included in the original document.)

1 Summary

1.1 The Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 ('the Regulations') set out the requirements that those subject to this legislation need to follow. This includes applying 'enhanced customer due diligence' (EDD) when a customer is a politically exposed person (PEP). A PEP is defined as someone holding a prominent public position who is entrusted with prominent public functions either in the UK or elsewhere in the world. The Regulations also require EDD to be applied to a PEP's close family members or known close associates.

1.2 We first produced guidance in July 2017 (FG17/6 'our guidance') for firms to apply a proportionate approach in dealing with PEPs. FMSA 2023 required us to review the way that firms apply our guidance ('PEPs review') and consider changes if necessary.

1.3 On 18 July 2024 we published the outcomes of the PEPs review. We found that, generally, our guidance remains appropriate. However, we identified some amendments needed to reflect changes to the legislative framework in the UK since it was first published.

1.4 So on 18 July, we published our consultation, GC24/4 ('our consultation') proposing the following minor changes:

- Clarifying that non-executive board members (NEBMs) of civil service departments in the UK are not roles that a firm should be treating as a PEP.

- Making changes to senior management approval for signing off business relationships with PEPs, family members or known close associates.
- Clarifying that a firm's Money Laundering Reporting Officer (MLRO) need not be involved if a suitably senior person signs off the opening of the business relationship and the MLRO retains oversight of the overall process for complying with the Regulations and our guidance.
- Reflecting changes to the Regulations that firms should treat domestic PEPs as lower risk unless there are other risk factors apparent that are unrelated to their PEP status.
- A small number of other minor changes to our guidance, including removing references to EU guidance that no longer apply in UK law.

1.5 We asked affected industry and consumers for their feedback on both the proposed minor changes to the guidance and, more broadly, if there were other areas of the guidance that might be improved.

1.6 Chapter 2 summarises this feedback and we give the finalised guidance at Annex 1.

2 Feedback statement

2.1 The consultation ran from 18 July 2024 to 18 October 2024. We received 26 written responses. Most of these came from trade bodies across the financial services industry. Others came from regulated firms, technology firms, consultancies and interested private individuals. We also hosted a roundtable with representatives of trade bodies and another with interested Parliamentarians.

2.2 We have considered all the feedback in the context of the rules set out in the Regulations and the PEPs review. We have set out the broad themes of the feedback below along with our response.

Definition of a PEP

Question 1: Do you agree with our proposal and wording in Paragraph 2.16 to clarify that NEBMs of UK civil service departments are not PEPs? If you disagree, please provide reasons for this.

Feedback

2.3 All but one respondent agreed. One respondent considered, but did not provide evidence, that NEBMs still have influence over those who do have authority on civil service boards.

2.4 Some respondents asked us to provide a definitive list of who should be treated as a PEP. Some respondents asked us to consider including functions below national government level such as mayors. We were also asked about potential risk from those at lower levels in the civil service who might have responsibility for procurement. One respondent asked us to explicitly state that our definition of similar legislative bodies in the UK includes the Northern Ireland Assembly.

Response

2.5 Given the support for our proposal for NEBMs the final guidance will explicitly state that NEBMs should not be treated as PEPs.

2.6 Our intention with our guidance was to minimise the number of functions that are treated as a PEP in line with the approach now set out in legislation that UK PEPs carry a lower risk compared to foreign PEPs. However, firms must follow the risk-based approach to decide if, based on their own analysis, they want to go beyond the guidance in some circumstances. Given this we will not expand the list beyond the functions we originally outlined.

2.7 We will include the Northern Ireland Assembly as a 'similar legislative body' in the UK. We always intended that firms should apply this to all of the devolved

legislatures in the UK and we are including it in the list that currently includes the Scottish Parliament and the National Assembly for Wales.

2.8 We have made some minor amendments to the definition of who is a PEP based on feedback we received. This includes adding a link to a government list of international organisations to help firms in deciding whether someone is a director, deputy director or board member of an international organisation. International organisations in this context do not include international sporting federations.

2.9 We have made some minor clarifications to:

- Our definition of high-ranking officers in the armed forces.
- Changed the terminology of 'brothers and sisters' to refer to siblings.

2.10 Firms are allowed, in line with Regulation 35(9)(b) to continue to apply the requirements of 35 (5) and (8) to an individual who is no longer a PEP if this is appropriate to address the money laundering risks that person presents. Our guidance now confirms that where firms consider it appropriate to use 35 (9) (b) then the firm must clearly document the rationale for doing so.

Sign off for PEP Relationships

Question 2 Do you agree with our proposal and the wording in Paragraph 2.15 to allow more flexibility in signing off PEP relationships? Are there other approaches to senior management signing off PEP relationships that we haven't included?

Feedback

2.11 Respondents welcomed the greater flexibility this offered. Some had noted concerns about how the MLRO signing off PEP relationships aligns with MLRO independence. Some respondents asked for further clarity on how sign offs might work in firms with customer facing and compliance functions or with multiple operations within a firm. They asked if we could name specific job titles that would be considered as part of a firm's senior management. Respondents also asked for greater clarity on sign off for low-risk PEPs as opposed to high-risk PEPs, and how an MLRO should oversee the process for sign offs.

2.12 Considering the feedback, we have reflected on how firms can be given the greatest flexibility to implement senior manager sign off for PEP relationships.

2.13 Our revised approach links directly back to the definition of 'senior management' in the Regulations. This allows firms to have processes to allocate sign off to anyone who has sufficient knowledge of the firm's money laundering, terrorist financing and proliferation financing risk exposure, and has sufficient authority, to take decisions affecting its risk exposure. Firms should clearly document who these staff are and train them on the requirements for approval. We have provided flexibility for sign off to be at a lower level of seniority in cases of lower risk PEPs.

2.14 We have also clarified how we expect MLROs to oversee the operation of PEPs controls. MLROs need to monitor how onboarding and ongoing monitoring controls operate in line with the Regulations, our guidance and the Consumer Duty.

Reflecting changes to the Regulations by the Money Laundering and Terrorist Financing (Amendment) Regulations 2023

Question 3 Do you think our proposed wording in paragraphs 2.12, 2.15, 2.27, 2.29 and 2.35 of our Guidance is sufficient to reflect the changes to the MLRs in January 2024? If not, what additional wording is needed?

Feedback

2.15 Respondents generally supported our proposed changes. Some raised concerns about the geographic application of the Regulations and our guidance. These included:

- Compliance for UK groups operating in multiple jurisdictions where rules, or expectations of complying with those rules on PEPs, including treating UK PEPs as Foreign PEPs, will vary.
- Challenges of foreign branches or subsidiaries operating in the UK who will be expected to follow their own group policies which are based on legislation or supervisory expectations in their home country.
- Firms who might be operating across border, with customers who may be in other jurisdictions such as the EU where the law or supervisory expectations may be different to the Regulations and our guidance.

Response

2.15 We understand the challenges that firms may face when operating across multiple jurisdictions, whether they are headquartered in the UK or operating in the UK through a branch or subsidiary.

2.16 For UK groups the expectation we set out in the proposed changes to our guidance was intended to reflect how the government intended the Regulations to operate. Since 2017 the Regulations have required firms to apply group wide policies and procedures to all its branches and subsidiaries. The Treasury have clarified this includes the treatment of domestic PEPs under the Regulations. We have amended our guidance to ensure it aligns with the Regulations.

2.17 For foreign groups, we have been clear with industry that we expect them to comply with the Regulations and our guidance when it comes to any business relationship in the UK. We have considered concerns about potentially conflicting laws but are unable to provide guidance on managing legislative requirements elsewhere in the world. This would involve us interpreting legislation from multiple jurisdictions. Our duty to provide guidance on PEPs is limited purely to obligations under the Regulations.

Minor changes to our guidance

Question 4 Do you agree with the minor amendments we propose to the Guidance? Are there other changes we should consider?

Feedback

2.18 Respondents generally agreed with our proposals to make these minor changes. One respondent raised a concern about how our guidance reflected the requirement in the Regulations about declassifying PEPs when they cease to hold the public position that has made them a PEP.

2.19 A Concern was raised were around the proportionality of screening for, and immediately declassifying, family members or known close associates of PEPs. Respondents asked us to consider giving greater flexibility than the Regulations in allowing declassification when a firm undertakes an EDD refresh or at other appropriate times. Respondents also asked us to provide more guidance on risk factors where it might be necessary to continue to treat a PEP as a PEP longer than one year after leaving office.

Response

2.20 Our guidance incorporates the changes that we proposed in our consultation.

2.21 On declassifying PEPs/their family members/known close associates, this is a requirement in the Regulations which we reflect in our guidance. It would not be in line with the Regulations to permit firms to continue to treat someone as a PEP where the regulations require them to be declassified. We have considered the request for more flexibility and have added some additional language to our guidance that references trigger events like planned elections that can help firms with their monitoring of PEP status. We have also included an option for firms to ask their customers to let them know about the change of circumstance to aid with up-to-date records.

Additional guidance

Question 5 Based on our PEPs Review and the MLRs, is there additional guidance that you think should be reflected in the update to the Guidance? If so, what specific guidance should we consider and how do you think it would support firms' risk-based approach to EDD?

Feedback

2.22 Many respondents asked for more detailed changes to our guidance on applying EDD for lower and high-risk PEPs, such as additional examples of lower level EDD.

2.23 One respondent noted the challenges with applying EDD on customers such as family members where public information is not available, unlike with PEPs themselves who are subject to disclosure requirements. Others asked if we could provide illustrative

or worked examples to help firms meet their obligations. One respondent asked how they can practically identify junior or middle ranking officials who act on behalf of PEPs to hide potential proceeds of corruption.

2.24 Some respondents asked us to include the examples of good and poor practice outlined in our PEPs review. Others asked for examples that clarified the difference expected in treatment between a wholesale and a retail customer. One respondent wanted guidance on assessing which countries have lower corruption risk. Another sought clarity on the treatment of PEPs in Overseas Territories or Crown Dependencies.

2.25 Respondents asked us to consider further changes to our guidance on how to treat the involvement of PEPs in the beneficial ownership of companies. They also asked for more detail on assessing the risks of PEP beneficial ownership of a company and on assessing ownership and control of companies.

2.26 General comments included asking if it was still appropriate for UK PEPs to be considered as lower risk and calling for a global minimum standard for identifying PEPs.

Response

2.27 We have considered the feedback and reviewed the detailed findings of our supervisory work. We have not identified further detail that we could add to our guidance to provide further examples of EDD measures and consider that our guidance already provides as much detail as we can whilst keeping it principles based and in line with the rules set out in the Regulations.

2.28 On beneficial ownership by a PEP, we have clarified that a legal entity should not be treated as a PEP unless a firm is fully satisfied that a PEP is exercising significant control. We have not identified any other changes to our guidance on this topic or on particular different ownership structures, which we see as a case-by-case judgement for a firm and not appropriate for our guidance.

2.29 We have decided not to include the good and poor practice examples from our PEPs review within our guidance. However, we have included a cross reference and encourage firms to consider the findings of the review alongside our guidance.

2.30 We have also made some minor amendments to the original guidance to help with readability and in line with our overall approach to remove footnotes.

2.31 We will continue to supervise how firms are meeting their obligations under the Regulations including their treatment of PEPs in line with our guidance.

Annex 1 Final Guidance

Summary of the Guidance

We expect firms to take appropriate but proportionate measures in meeting their financial crime obligations. The Regulations set out that all firms must apply a risk sensitive approach to identifying PEPs and then applying enhanced due diligence measures. The Regulations and Guidance clarifies that a case-by-case basis is required with the risk assessment of individual PEPs rather than applying a generic approach to all PEPs.

The Guidance clarifies on how firms should apply the definitions of a PEP in the Regulations in a UK context. This includes that firms should only treat those in the UK who hold truly prominent positions as PEPs and not to apply the definition to local government, more junior members of the senior civil service or anyone other than the most senior military officials. This means that, in practice it is unlikely that a large number of UK customers should be treated as PEPs.

Even where a UK customer meets the PEP definition due to the position they hold, the Guidance and Regulations requires a firm recognise these customers' lower risk. In these cases, firms should apply the Guidance on measures they can take in lower risk situations to meet their EDD obligations. The guidance also provides that lower levels of EDD can be taken for PEPs who are from another country which they assess as having similarly transparent anti-corruption regimes.

However, the Guidance does require firms to apply more stringent approaches where they assess the customer as having a greater risk. In those circumstances firms will need to take further steps to verify information about the customer and the proposed business relationship. This is in line with our financial crime guidance to date where the focus has been on managing higher risk PEP relationships.

Guidance

Introduction

This Guidance is aimed at any institution that has its anti-money laundering systems and controls overseen by the FCA as set out in Regulation 7 of the Regulations. It discusses how they can meet their obligations when opening new relationships or monitoring existing relationships. It applies only to the scope of the MLRs, including business relationships undertaken in the course of business in the UK and the requirement to have group wide policies and procedures.

The Financial Ombudsman Service will consider complaints from PEPs, their family members or close associates, and will take the guidance into account when deciding what is fair and reasonable in all the circumstances of a complaint.

This Guidance has not been approved by the Treasury under Regulation 35(4)(b) and sections 330 & 331 of the Proceeds of Crime Act. However, Regulation 35(4)(b)(i) states that firms may take into account any guidance that we have issued.

In this guidance, we show in italics where we are interpreting rather than restating legal obligations.

Firms should only take additional measures beyond this Guidance where:

- This is justified on the basis of their risk assessment;
- That customer has risk factors unrelated to their position or connection to a PEP.

This Guidance should be read in conjunction with our multi-firm review of the treatment of politically exposed persons published in July 2024. It provides examples of good and poor practice by firms in following the Guidance (as originally published in July 2017) and the Regulations (as they were in force in July 2024).

Why do PEPs, family members of PEPs or known close associates of PEPs pose a risk

Under the Regulations which derive from the international standards set by the Financial Action Task Force (FATF), financial firms are required to do extra checks on political figures, their families and close associates. These global standards address the increased risk that PEPs, and those connected to them, may be targeted for bribery and corruption, with the financial system used to launder the proceeds. However, under both the law and in our expectations, domestic PEPs, their family members and close associates should be treated as lower risk, unless there is a reason otherwise. As FATF says 'these requirements are preventive (not criminal) in nature and should not be interpreted as stigmatising PEPs as such being involved in criminal activity'.

It is because of their function that a person becomes a PEP and is required to be subject to enhanced scrutiny by firms.

Likewise, a PEP's family or close associates may also benefit from, or be used to facilitate, abuse of public funds by the PEP. It is as a result of this connection that family and known close associates are required to be subject to greater scrutiny. Family and close associates are not themselves PEPs solely as a result of their connection to a PEP.

What firms' obligations are under the Regulations

The Regulations require firms to have appropriate risk-management systems and procedures to determine whether a customer or a customer's beneficial owner is a PEP (or a family member or a known close associate of a PEP) and to manage the risks. This includes where a PEP, family member or close associate is operating via an intermediary or introducer (including regulated roles, such as banking staff, lawyers, estate agents etc). There are many legitimate reasons for doing so, such as a solicitor acting in a property transaction. In these situations, and in line with FATF Guidance, we expect firms to understand as part of their due diligence why a PEP, family member or close associate is using such an arrangement and consider that as part of their assessment of risk.

The Regulations state that in determining whether these systems and procedures are appropriate, a firm should refer to:

Its own risk assessment of the money laundering/terrorist financing risks it is subject to. Our *financial crime guide contains Guidance on our expectations of risk assessments in relation to overall financial crime (Box 2.3) and specifically money laundering (Box 3.3*).

- An assessment of how far the risk would be increased by a business relationship with a PEP, family member or close associate. We *would expect this is a case-by-case assessment and not an automatic assessment that a relationship creates a high risk of money laundering.*

- Any information we have provided. This will include the FCA's publication 'Financial Crime: a guide for firms', thematic reviews, speeches on financial crime issues or enforcement action.

We expect firms to make use of information that is reasonably available to them in identifying PEPs, family members or known close associates. This could include:

- *Public domain information such as websites of parliaments and governments, reliable news sources and work by reputable pressure groups focused on corruption risk such as Transparency International or Global Witness. Firms should use a variety of sources where possible*.

- *Reliable Public Registers – in the UK this includes Companies House's register of companies and persons of significant control (PSC) and those maintained by the Electoral Commission.*

- *In line with the firm's nature and size, it can choose, but is not required, to use commercial databases that contain lists of PEPs, family members and known close associates. A firm doing so would need to understand how such databases are populated and will need to ensure those flagged by the system fall within the definition of a PEP, family member or close associate as set out in the Regulations and this Guidance.*

Where a firm has identified that a customer (or beneficial owner of a customer) does meet the definition of a PEP (or a family member or known close associate of a PEP), a firm must assess the level of risk associated with that customer and, as a result of that assessment, the extent to which enhanced due diligence measures need to be carried out. *The risk factors set out in this Guidance will help firms to consider relevant factors when meeting these obligations. A firm's assessment and its decision to apply relevant enhanced due diligence measures need to be clearly documented.*

The starting point for the risk assessment for a domestic PEP or their family members and known close associates is that they present a lower level of risk than a non-domestic PEP. *This does not mean that a foreign PEP will always be higher risk. As such, firms will be able to take lower levels of EDD than other foreign PEPs where they assess, in line with this guidance, a lower risk.*

We expect that a firm will not decline or close a business relationship with a person merely because that person meets the definition of a PEP (or of a family member or known close associate of a PEP). A firm may, after collecting appropriate information and completing its assessment, conclude the risks posed by a customer are higher than they can effectively mitigate; only in such cases will it be appropriate to decline or close that relationship.

If, having assessed the risk and decided on an appropriate level of enhanced due diligence measures in line with this guidance, a firm is unable to apply those measures, a firm needs to comply with the requirement not to establish, or to terminate, a business relationship.

Where a firm proposes to have, or to continue, a business relationship with a PEP, family member or known close associate of a PEP, they are required to:

- Have approval from senior management for establishing or continuing the business relationship with that person. The Regulations define 'senior management' as 'an officer or employee with sufficient knowledge of the money laundering, terrorist financing and proliferation financing risk exposure and of sufficient authority to take decisions affecting its risk exposure'. *In line with the nature and size of the business, a firm should clearly document within its policies and procedures and internal controls those who are considered to meet this definition and any delegations of authority by those persons and ensure staff onboarding customers are trained on seeking this approval. We expect that in lower risk situations sign-off may be at a lower level of seniority in a firm but should still have sufficient authority to sign off these decisions and those decisions should be documented. The SMF17 Money Laundering Reporting Officer (MLRO) may be independent of decisions to sign off PEPs relationships but the FCA expects them to be aware of any PEPs onboarded or rejected as part of their role of overseeing the operation of a firm's AML policies and procedures. Awareness in this context does not require oversight of all decisions but an SMF17 will need to ensure their approach to PEPs operates in line with the Guidance and Regulations and considers the Consumer Duty.*

- Take adequate measures to establish the customer's source of wealth and source of funds relevant to the proposed business relationship or transaction. *Adequate measures will vary according to the risks assessed depending on the nature of the relationship/transaction. This will need greater measures to clarify source of wealth and source of funds required for unusual or unexpected transactions, while for lower risk products or relationships, reliance might be placed on funds coming from credit or financial institution. We set out our expectations further in this Guidance.*

- Once the business relationship is entered into, conducting enhanced ongoing monitoring of the business relationship with that person. *The nature and extent of this monitoring will depend on the risk assessment.*

The Regulations require that a group must make sure that the policies, controls and procedures referred to in Regulations 19(1) and 19A apply to all its subsidiary undertakings, including those located outside the United Kingdom and any branches it has established outside the United Kingdom. Regulation 20(3) states that the parent undertaking must ensure that those subsidiary undertakings and branches apply measures equivalent to those required by these Regulations, as far as permitted under the law of the third country. As such, the legislation requires that the starting point for the risk assessment of a UK PEP is that they present a lower level of risk than a non-UK PEP and that assessment is applied across the group unless that is not permitted by the local law in that jurisdiction.

Who should be treated as a PEP

PEPs are defined as individuals entrusted with prominent public functions, including:

- Heads of state, heads of government, ministers and deputy or assistant ministers.

- Members of parliament or of similar legislative bodies – *similar legislative bodies include regional governments in federalised systems and devolved administrations, including the Scottish Parliament and Scottish Government, the Northern Ireland Assembly and Northern Ireland Executive and the National Assembly for Wales and the Welsh Government, where such bodies have some form of executive decision-making powers. It does not include local government in the UK but it may, where higher risks are assessed, be appropriate to do so in other countries.*

- Members of the governing bodies of political parties – *we consider this only applies to political parties who have some representation in a national or supranational Parliament or similar legislative body as defined above. The extent of who should be considered a member of a governing body of a political party will vary according to the constitution of the parties but will generally only apply to the national governing bodies where a member has significant executive power (eg over the selection of candidates or distribution of significant party funds).*

- *Members of supreme courts, constitutional courts or any judicial body whose decisions are not subject to further appeal except in exceptional circumstances – in the UK this means only judges of the Supreme Court; firms should not treat any other member of the judiciary as a PEP and only apply EDD measures where they have assessed additional risks.*

- Members of courts of auditors or of the boards of central banks.

- Ambassadors, charges d'affaires and high-ranking officers in the armed forces – *we consider this is only necessary where those holding these offices on behalf of the UK government are at Permanent Secretary/Deputy Permanent Secretary level or hold the equivalent military rank. In the UK this will be Vice Admiral, Lieutenant General or Air Marshal).*

- Members of the administrative, management or supervisory bodies of State-owned enterprises – we consider that this only applies to for profit enterprises where the state has ownership of greater than 50% or where information reasonably available points to the state having control over these enterprises' activities.

- Directors, deputy directors and members of the board or equivalent function of an international organisation – we *consider that international organisations only includes international public organisations such as the UN and NATO. The government made clear in their consultation of 15 March 2017 that they do not intend this definition to extend to international sporting federations.* A list of international organisations is available on the GOV UK website.

- *Non-executive board members of central government boards in the UK should not be treated as PEPs unless they already meet the definition of a PEP in respect of another capacity (e.g. a Member of the House of Lords).*

The definition of a 'prominent public function' will vary according to the nature of the function a person holds. We expect firms to understand the nature of the position held and whether the function gives rise to the risk of large-scale abuse of position and clearly document decisions to go beyond the functions set out in the Regulations

and above. If a position is held in a country assessed as being at a lower risk of large-scale corruption (because of the system and checks and balances in place that reduce the threat) then only those with true executive power should be considered to hold a prominent public function. In the UK, it will not normally be necessary to treat public servants below Permanent or Deputy Permanent Secretary as having a prominent public function. If a firm establishes an exceptional case and does apply the definition to functions more junior than these levels it should record its rationale.

The Regulations exclude from the definition of a PEP those who are 'junior or mid-ranking'. In those cases, it will normally only be necessary to meet the obligations to undertake customer due diligence. However, a firm should be alert to the potential that middle ranking and more junior officials could act on behalf of a PEP. Where ongoing monitoring of a relationship or information collected about the customer suggests this risk a firm should consider what additional measures it needs to take. This includes any transaction or business relationship established in a high-risk third country.

If a person who is a PEP no longer has a prominent public function, that person should continue to be subject to risk-based enhanced due diligence for a period of at least 12 months after the date they ceased to hold that public function. Firms may apply measures for a longer period to address risks of money laundering or terrorist financing in relation to that person, *but we consider this will only be necessary in the cases of PEPs where a firm has assessed that PEP as posing a higher risk, in line with this Guidance and the firm should document this rationale.*

Firms should note that the Regulations explicitly state they cannot apply these measures to those who were not a PEP under the Money Laundering Regulations 2007 (those who held a prominent public position in the UK, such as a former MP, retired member of the House of Lords or a former UK ambassador where they ceased that office before 26 June 2017).

Where a person holds functions that meet the definition of both a domestic PEP and a foreign PEP a firm should treat them as a foreign PEP. But firms should use the Guidance to assess the risk of that customer and apply the appropriate measures outlined in the lower or higher risk measures sections in this Guidance.

Who should be considered a family member

Family members of a PEP are defined as including:

- Spouse, or civil partner
- Children and their spouses or civil partners
- Parents
- *We consider that this includes siblings of PEPs.*

This is not a complete list.

Firms should take a proportionate and risk-based approach to the treatment of family members who do not fall into this definition. A corrupt PEP may use members of their wider family to launder the proceeds of corruption on their behalf. It may be appropriate to include a wider circle of family members (such as aunts and uncles) where a firm has assessed a PEP to pose a higher risk. This would not apply to lower risk PEPs. In low-risk situations, a firm should not apply any EDD measures to

someone who is not within the definition above and should apply normal customer due diligence measures. A family member of a PEP is not a PEP themselves purely as a consequence of being associated with a PEP. A firm should include the definition it applies and its rationale as part of its policies and procedures to comply with the Regulations.

The Regulations require that a PEP must be treated as a PEP after they leave office for at least 12 months, depending on risk. This does not apply to family members, who should be treated as ordinary customers, subject to customer due diligence obligations from the point that the PEP leaves office. We consider a family member of a former PEP should not be subject to enhanced due diligence measures unless this is justified by the firm's assessment of other risks that customer poses. A firm may not become aware of its customer ceasing to be a PEP or being family member of known close association of such a person immediately. We expect a firm should monitor this as part of ongoing reviews, or when it first becomes aware of this information. For UK elections, we consider firms will be aware of these outcomes as they will be in the public domain and react to any changes in PEP status.

People who are 'known to be close associates of a PEP

A 'known close associate' of a PEP is defined as including an individual:

- Known to have joint beneficial ownership of a legal entity or a legal arrangement or any other close business relationship with a PEP
- 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 PEP

A known close associate of a PEP is not a PEP themselves purely as a consequence of being associated with a PEP.

All PEPs do not pose the same risk

The risk of such corruption will differ between PEPs. We expect firms to take a differentiated approach that considers the risks an individual PEP poses based on an assessment of:

- *The prominent public functions the PEP holds*
- *Where that function is held - Regulation 35(3A) requires that the starting point is that a domestic PEP represents a lower level of risk compared to non-domestic PEPs*
- *The nature of the proposed business relationship*
- *The potential for the product to be misused for corruption*
- *Any other relevant factors the firm has considered in its risk assessment*

This Guidance discusses how firms may differentiate between PEPs. In this Guidance, we use the terms 'lower risk' and 'higher risk' to recognise that firms are required to apply EDD on a risk-sensitive basis. An overall risk assessment will consider all risk factors that a customer may present and come to a holistic view of what measures should be taken to comply. No one risk factor set out below means a customer should automatically be treated as posing a higher risk; it is necessary to consider all aspects.

Some indicators that a PEP might pose a lower risk

In our view, the following indicators suggest a PEP poses a lower risk:

Lower risk indicators- product

The customer is seeking access to a product the firm has assessed to pose a lower risk. This will include products the firm assesses as low risk and to which it applies simplified due diligence measures.

Lower risk indicators- geographical

The Regulations require firms to have the starting point that domestic PEPs as well as their family members and known close associates pose a lower risk than foreign PEPs unless enhanced risk factors are present. *Regulation 18 and Regulation 18A set out factors that might point to potential higher risk.*

A PEP may also pose a lower risk if they are entrusted with a prominent public function by a country where information available to the firm shows it has the following characteristics:

- *Associated with low levels of corruption*
- *Political stability, and free and fair elections*
- *Strong state institutions*
- *Credible anti-money laundering defences*
- *A free press with a track record for probing official misconduct*
- *An independent judiciary and a criminal justice system free from political interference*
- *A track record for investigating political corruption and taking action against wrongdoers*
- *Strong traditions of audit within the public sector*
- *Legal protections for whistleblowers*
- *Well-developed registries for ownership of land, companies and equities*

Lower risk indicators- personal and professional

A PEP may pose a lower risk if they:

- *Are subject to rigorous disclosure requirements (such as registers of interests, independent oversight of expenses)*
- *Does not have executive decision-making responsibilities (e.g. an opposition MP or an MP of the party in government but with no ministerial office)*

What are indicators that a PEP might pose a higher risk?

In our view, the following indicators suggest a PEP poses a higher risk:

Higher risk indicators- product

The firm's risk assessment finds the product or relationship a PEP (or a combination of these) is seeking is capable of being misused to launder the proceeds of large-scale corruption

Higher risk indicators- geographical

A PEP may pose a greater risk if they are entrusted with a prominent public function in a country that is considered to have a higher risk of corruption. In coming to this conclusion, a firm should have regard to whether, based on information available, the country has the following characteristics:

- *Associated with high levels of corruption*
- *Political instability*
- *Weak state institutions*
- *Weak anti-money laundering defences*
- *Armed conflict*
- *Non-democratic forms of government*
- *Widespread organised criminality*
- *A political economy dominated by a small number of people/entities with close links to the state*
- *Lacking a free press and where legal or other measures constrain journalistic investigation*
- *A criminal justice system vulnerable to political interference*
- *Lacking expertise and skills related to book-keeping, accountancy and audit, particularly in the public sector*
- *Where law and culture antagonistic to the interests of whistleblowers*
- *Weaknesses in the transparency of registries of ownership for companies, land and equities*
- *Human rights abuses*

Higher risk indicators- personal and professional

The following characteristics might suggest a PEP is higher risk:

- *Personal wealth or lifestyle inconsistent with known legitimate sources of income or wealth; if a country has laws that do not generally permit the holding of a foreign bank account, a bank should satisfy itself that the customer has authority to do so before opening an account*
- *Credible allegations of financial misconduct (e.g. facilitated, made, or accepted bribes)*
- *Responsibility for, or able to influence, large public procurement exercises, particularly where procurement is not subject to competitive tender, or otherwise lacks transparency*

- *Is responsible for, or able to influence, allocation of scarce government licenses such as mineral extraction concessions or permission for significant construction projects.*

Some indicators that a PEP's family or known close associates pose a lower risk

A family member or close associate of a politically exposed person may pose a lower risk if the PEP themselves poses a lower risk. To clarify, we expect family or known close associates of UK PEPs to be treated as lower risk unless there are circumstances to suggest otherwise.

What are some indicators that a PEP's family or known close associates pose a higher risk?

The following characteristics might suggest a family member, or close associates of a politically exposed person poses a higher risk:

- *Wealth gained from the granting of government licences (such as mineral extraction concessions, licence to act as a monopoly provider of services, or permission for significant construction projects)*
- *Wealth from preferential access to the privatisation of former state assets*
- *Wealth from commerce in industry sectors associated with high barriers to entry or a lack of competition, particularly where these barriers stem from law, regulation or other government policy*
- *Wealth or lifestyle inconsistent with known legitimate sources of income or wealth*
- *Credible allegations of financial misconduct (e.g. facilitated, made, or accepted bribes)*
- *Appointment to a public office that appears inconsistent with personal merit*

Measures firms should take when they identify a customer is a PEP, a family member or known close associate of a PEP

Firms should take the following measures where a customer meets the definition of a PEP, a family member or known close associate of a PEP:

- Get senior management approval for establishing or continuing business relationships with such persons
- Take adequate measures to establish the source of wealth and source of funds that are involved in business relationships or transactions with such persons
- Conduct enhanced, ongoing monitoring of those business relationships

The nature and extent of this due diligence should be appropriate to the risk that the firm has assessed in relation to the customer. A firm should apply more extensive measures for relationships assessed as high risk and less extensive measures for lower risk customers.

Measures firms can take in lower risk situations?

In our view, in lower risk situations a firm may take the following measures:

- *Seek to make no enquiries of a PEP's family or known close associates except those necessary to establish whether such a relationship does exist.*
- *Take less intrusive and less exhaustive steps to establish the source of wealth and source of funds of PEPs, family members or known close associates of a PEP. For example, only use information already available to the institution (such as transaction records or publicly available information) and do not make further inquiries of the individual unless anomalies arise. It is necessary to seek source of wealth information. But in all lower risk cases, especially when dealing with products that carry a lower risk of laundering the proceeds of corruption, firms should minimise the amount of information they collect and how they verify this information provided (for example, via information sources it has available).*
- *Oversight and approval of the relationship takes place at a lower level of seniority in a firm but should still have sufficient authority to sign off these decisions and those decisions should be documented.*
- *A business relationship with a PEP or a PEP's family and close associates is subject to less frequent formal review than if was considered high risk (for example, only where it is necessary to update customer due diligence information or where the customer requests a new service or product).*

In line with Regulation 35(3A) firms must consider, as a starting point, that domestic PEPs present a lower risk than foreign PEPs unless other risk factors are apparent. While the Regulations permit firms to apply a risk-based approach to foreign PEPs they must apply less intrusive steps to domestic PEPs than they apply to foreign PEPs who are classified as lower risk.

Measures firms can take in higher risk situations?

In our view, in higher risk situations firms may take the following measures:

- *Take more intrusive and exhaustive steps to establish the source of wealth and source of funds of PEPs, family members or known close associates of a PEP*
- *Oversight and approval of the relationship takes place at a more senior level of management*
- *A business relationship with a PEP or their family and close associates is subject to more frequent and thorough formal review as to whether the business relationship should be maintained*

Long-term insurance contracts

Firms that provide a customer with a contract of long-term insurance are required to have reasonable measures to determine whether the beneficiaries of the insurance policy or the beneficial owner of a beneficiary of such an insurance policy are a PEP or family members/known close associates of a PEP. This needs to be done before any payment is made under the insurance policy, whether the benefit of the insurance policy is assigned in whole or in part from a PEP or a family member or known close associate of a PEP to another person (and vice versa).

As with other measures, the nature and extent of the reasonable measures a firm should take will be driven by the overall money laundering, terrorist financing or proliferation financing risks a firm who offers this type of product has assessed in its risk assessment. It will also depend on the extent to which a PEP or known close associate/family using such a product raises the risk. Information on the nature of ML/TF risk is available via the UK's National Risk Assessment, information published by law enforcement agencies like the NCA in the UK and other reliable information sources. It will also depend on the nature of the life insurance product. For example, the cost of the premiums for the product, or if it can be redeemed or cashed out.

Beneficial owners of legal entities who are PEPs

Firms should identify when a PEP is a beneficial owner of a customer. It does not require that a legal entity should be treated as a PEP just because a PEP is a beneficial owner. A legal entity should not be treated as a PEP unless it is clear that the PEP exercises significant control over the entity.

If a firm is satisfied that a PEP is exercising significant control then, in line with the risk-based approach, they should assess the risks posed by the involvement of that PEP and should then apply appropriate measures in accordance with this Guidance. These could range from applying customer due diligence measures in cases where the PEP is just a figurehead for an organisation (this will vary according to the individual circumstances but apply even if they sit on the board, including as a non-executive director). It could also involve applying EDD measures, according to the risk assessed in line with this Guidance, where it is apparent the PEP has significant control or the ability to use their own funds in relation to the entity.

Where a PEP is a beneficial owner of a corporate customer, then a firm should not automatically treat other beneficial owners/shareholders of the customer as a PEP or known close associate under the Regulations. However, they may do so having assessed the relationship based on information available to the firm.