

Bank Secrecy Act Anti-Money Laundering Examination Manual

Expanded Overview - Politically Exposed Persons

OBJECTIVE

Assess the adequacy of the bank's systems to manage the risks associated with transactions involving politically exposed persons (PEP'), and management's ability to implement effective due diligence, monitoring, and reporting systems.

OVERVIEW

For the purposes of this manual, a PEP is a person identified in the course of normal account opening, maintenance or compliance procedures to be a "senior foreign political figure," any member of a senior foreign political figure's "immediate family," and any "close associate" of a senior foreign political figure.

Interagency guidance issued in January 2001, offers banks resources that can help them to determine whether an individual is a senior foreign political figure, an immediate family member, or a close associate. According to this guidance:

- A "senior foreign political figure" is a senior official in the executive, legislative, administrative, military or judicial branches of a foreign government (whether elected or not), a senior official of a major foreign political party, or a senior executive of a foreign government-owned corporation. In addition, a senior foreign political figure includes any corporation, business or other entity that has been formed by, or for the benefit of, a senior foreign political figure.
- The "immediate family" of a senior foreign political figure typically includes the figure's parents, siblings, spouse, children, and in-laws.
- A "close associate" of a senior foreign political figure is a person who is widely and publicly known to maintain an unusually close relationship with the senior foreign political figure, and includes a person who is in a position to conduct substantial domestic and international financial transactions on behalf of the senior foreign political figure. While close associates are more difficult for banks to identify, they include individuals who due to the nature of their relationship with the PEP, are in a position to conduct significant domestic and international financial transactions on behalf of the PEP.

RISK FACTORS

In high-profile cases over the past few years, PEP' have used banks as conduits for their illegal activities, including corruption, bribery, and money laundering. Banks that conduct business with dishonest PEP' face substantial reputation risk, enhanced scrutiny, and possible supervisory action.

RISK MITIGATION

Banks should obtain comprehensive due diligence information on PEP' and establish policies, procedures, and processes that provide for greater scrutiny and monitoring of all PEP accounts. Account opening procedures are critical, as this is the prime opportunity for the bank to gather the following information on PEP':

- The identity of the accountholder and beneficial owner.
- The source of funds.
- The source of wealth.
- Information on immediate family members or close associates having transaction authority over the account.
- The purpose of the account and the expected volume and nature of account activity.

PEP accounts are not limited to large or internationally-focused banks. A PEP can open an account at any bank, regardless of its size or location. Banks should specifically identify PEP accounts and assess the degree of risks involved, which will vary. Senior management should be involved in the decision to accept a PEP account. If management determines after-the-fact that an account is a PEP account, they should evaluate the risks and take appropriate steps. Ongoing monitoring of PEP accounts is critical to ensuring that the accounts are being used as anticipated. The BSA requires due diligence for private banking accounts maintained for certain PEP'.