

**WORKING PAPER OF FINANCIAL INSTITUTIONS SUPERVISORY AUTHORITIES
ON THE HANDLING OF ACCOUNTS LINKED TO
POLITICALLY EXPOSED PERSONS – PEPs**

("Supervisors' PEP working paper 2001")

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1. Introduction

1 This working paper has been jointly prepared by the following national financial institutions supervisory authorities :

- Banking Commission, France
- Federal Banking Commission, Switzerland
- Federal Banking Supervisory Office, Germany
- Financial Services Authority, UK
- Office of the Superintendent of Financial Institutions, Canada

Hereinafter, referred to as "the supervisors".

2 There is a growing focus, internationally and in individual countries, on fighting corruption and abuse of public funds more effectively. The main impetus has been recognition of the damage which corruption or abuse of public funds can cause, both social and financial, to the countries involved, and also globally.

3 Alongside this is the increasing awareness of the risks posed to banks and financial systems from laundering the proceeds of corruption or abuse of public funds. In accepting and handling funds from such sources, banks have to recognise the possible implications. These include reputational damage; restitution claims from national governments or individuals; significant legal and compliance costs and charges of money laundering against bank officers themselves.

4 The abuse of the financial system to launder proceeds of corruption or abuse of public funds is an issue of concern for supervisors. Therefore, by preparing this paper as a contribution to ongoing work at the national level and through international fora, the supervisors believe that the issues identified herein could be of use both to supervisors and to financial institutions.

5 Where a bank is a cross-border bank, dealing with these issues will be a matter for both home and host states. The supervisors confirm their willingness to co-operate closely with each other and with supervisors from other countries in this area within the framework of existing information sharing arrangements.

2. Purpose of the working paper

- 6 The purpose of this working paper is to assist supervisors in their approach to the question of identification of customers which may pose high levels of risk in terms of handling the proceeds of corruption and abuse of public funds. The paper also provides guidance on the steps which can be taken to manage such types of business relationship.
- 7 This paper assumes that financial institutions have in place effective customer due diligence procedures for all their customers including policies, procedures and controls to deter criminals from using their facilities for money laundering (including the reporting of suspicious transactions). These procedures are deliberately not addressed in the paper in order to avoid duplication with already existing standards at international and national levels. The paper deals exclusively with the specific issues relating to the identification of politically exposed persons, the clients and accounts which are linked to them, and the handling of such accounts.
- 8 The supervisors do not wish to discourage or prohibit banks from conducting business with any legitimate customer, including Politically exposed persons - PEPs. Instead, this paper aims to assist supervisors in determining whether accounts owned by, or linked to PEPs merit enhanced oversight procedures in order to assist the financial institution to better identify and avoid transactions which involve the proceeds of corruption and abuse of public funds.

3. Status

- 9 This paper is intended to be consistent with applicable civil and criminal law throughout the jurisdictions in which the supervisors work. They do not replace nor supersede any legal obligations imposed on financial institutions nor change the legal mandate of the supervisors. However, the supervisors will take the contents of this paper into account in order to develop their approach to these issues.

4. Definition of a Politically Exposed Person

- 10 Politically exposed persons - PEPs are individuals who are or have been entrusted with prominent public functions, for example Heads of State or of government, senior politicians, senior government, judicial or military officials, senior executives of publicly owned corporations, important political party officials. The definition is not intended to cover middle ranking or more junior individuals in the foregoing categories. Business relationships with family members or close associates of PEPs may involve reputational risks similar to those with PEPs themselves.

11 The definition includes any legal vehicles such as trusts and special purpose companies or corporate vehicles operated by these individuals or of which they have beneficial ownership.

12 Fundamentally, reputational risks related business relationships are the same for residents or non-resident in the jurisdiction in which they wish to open an account. However common sense indicates that it is rather unlikely that proceeds of crime or abuse of public funds are placed in the jurisdiction of the PEP's residence. At the same time local PEPs are better known to the financial intermediaries. Therefore the special procedures described in this paper are particularly necessary for non resident PEPs.

5. Identifying politically exposed persons during the account opening

13 The normal account opening procedures will not necessarily provide information on whether a future client is a politically exposed person or whether the account is linked to such a person. Therefore, the financial institution should :

- gather sufficient information from the client, e.g., by direct questioning, including the provenance of the client and funds deposited to the account, to enable the financial institution to form a reasonable assessment as to whether the client is a PEP,
- check on significant clients publicly available information or special research tools (see annex).

6. Decision to open an account for a politically exposed persons

14 If the source of the money invested with the bank does not give rise to any concerns, PEPs may be accepted as clients as any other person. However, the bank should carefully assess all risks based on the best reasonably available information.

15 Risk factors which could lead the financial institution not to open an account for a PEP include, but are not limited to, the following:

- any unexplained sources of wealth, e.g. where the value of property owned by the customer appears to be out of keeping with the prospective customer's income levels;
- a lack of verifiable sources of income;
- a lack of any plausible reason for wishing to open an account in that jurisdiction.

- concerns over the country where the account holder has a political position or where the money originates, taking into account his position ;
- expected receipts of large sums from governmental bodies or state-owned entities, including central banks ;
- source of wealth described as commission earned on government contracts for the procurement of goods or services ;

16 The decision to open an account for a politically exposed person should be taken by at least one member of the financial institution at senior management level.

17 If the bank concludes that the assets stem from corruption or abuse of public funds it should refrain from accepting monies and passing on transactions.

7. Enhanced diligence in monitoring accounts of politically exposed persons

18 If a bank decides to enter into a business relationship with a PEP (including accepting a PEP as a beneficial owner of an account) or a person which is linked to a PEP, the bank should apply enhanced due diligence procedures to accounts owned or controlled by that person, and to transactions undertaken on those accounts, including the bank's normal procedures for handling accounts deemed to be of a higher money laundering risk. This review should take into account the risk factors outlined in § 15.

19 If this review gives rise to concern, it should be referred immediately to the financial institution's senior management¹.

20 All customer relationships with PEPs should be reviewed regularly by the financial institution's senior management.

8. Review of ordinary accounts in order to identify politically exposed persons

21 Even if the procedures described are followed it is possible that PEPs or even all persons which are linked to them may not be identified. More importantly, existing clients may become politically exposed due to the continuing changes in the worldwide political environment. Therefore, periodical reviews of at least the more important clients should be undertaken regularly which could include

¹ Any national requirements to report suspicions or suspicious transactions to an investigating authority should be complied with in the usual manner.

the financial institution's client database against external data base of PEPs, if available.

- 22 Similar reviews should be undertaken if warning signs, including media coverage of cases of alleged corruption or abuse of public funds, are discovered. Of course, media reports as such do not confer suspicious status on a client relationship. Each case should be assessed on its merits.

Annex

Useful public sources of information

- (1) the FATF's annual reports and FATF's annual "Report on Money Laundering Typologies";
- (2) reports on corruption and money laundering issued by the United Nations and other international organisations;
- (3) reports published by non-governmental organisations that identify corruption, fraud and abuse;
- (4) national and local government web sites, which may provide useful information on individuals holding senior positions within governmental bodies;
- (5) databases collecting publicly available information maintained by private organisations and
- (6) the press and other media.