

Politically Exposed Persons (PEPs)

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There is an overriding expectation that all financial services businesses will "know their customer".

Regulatory bodies expects all financial firms to have formal policies and procedures in place in relation to the acceptance of new clients and ongoing review thereafter. All financial services businesses should ex-amine their PEP policy statement to establish whether and in what way their existing policies and procedures will need to be modified in order to follow this guidance.

"Politically exposed persons" will include senior political figures and their immediate family, and close associates.

In a number of prominent cases, it is believed (or has been proven) that those in power illegally amassed large fortunes by looting their country's funds, diverting international aid payments, disproportionately benefiting from the proceeds of privatizations, or taking bribes (described by a variety of terms such as commission or consultancy fees) in return for arranging for favorable decisions, contracts or job appointments.

The proceeds of such corruption are often transferred to other jurisdictions and concealed through companies, trusts or foundations or under the names of relatives or close associates.

This makes it more difficult to establish a link between the asset and the individual concerned.

Where family or associates are used, it may be more difficult to establish that the true beneficial owner is a "politically exposed person".

Financial services businesses that handle the proceeds of corruption, or handle illegally diverted government, supranational or aid funds, face the risk of severe reputational damage and also the possibility of criminal charges for having assisted in laundering the proceeds of crime.

Financial services businesses also face the risk of constructive trust suits in such situations.

A jurisdiction also faces considerable reputational damage should any of its financial services businesses have a business relationship with customers of this nature involving the proceeds of foreign corruption.

Financial services businesses can reduce risk by conducting detailed due diligence at the out-set of the relationship and on an ongoing basis where they know or suspect that the business relationship is with a "politically exposed person".

Financial services businesses should develop and maintain "enhanced scrutiny" practices to address PEP risk. All financial services businesses should assess which countries, with which they have financial relationships, are most vulnerable to corruption. One source of information is the Transparency International Corruption Perceptions Index at www.transparency.org

Financial services businesses which are part of an international group might also use the group network as another source of information.

Where financial services businesses do have business in countries vulnerable to corruption, they should establish who are the senior political figures in that country and, should seek to determine whether or not their customer has any connections with such individuals (for example they are immediate family or close associates).

Financial services businesses should note the risk that individuals may acquire such connections after the business relationship has been established.

Financial services businesses should be most vigilant where their customers are involved in those businesses which appear to be most vulnerable to corruption, such as, but not limited to, oil, or arms sales. In particular detailed due diligence, should include:

1. Close scrutiny of any complex structures (for example, involving companies, trusts and multiple jurisdictions) so as to establish that there is a clear and legitimate reason for using such structures and a centre such as Jersey, bearing in mind that most legitimate political figures would expect their personal affairs to be undertaken in a more than usually open manner rather than the reverse.
2. Every effort to establish the source of wealth (including the economic activity that created the wealth) as well as the source of funds involved in the relationship - again establishing that these are legitimate, both at the outset of the relationship and on an ongoing basis.
3. The development of a profile of expected activity on the business relationship so as to provide a basis for future monitoring. The profile should be regularly reviewed and updated.
4. A review at senior management or board level of the decision to commence the business relationship and regular review, on at least an annual basis, of the development of the relationship.
5. Close scrutiny of any unusual features, such as very large transactions, the use of government or central bank accounts, particular demands for secrecy, the use of cash or bearer bonds or other instruments which break an audit trail, the use of small and unknown financial institutions in secrecy jurisdictions and regular transactions involving sums just below a typical exporting amount.
6. There should be full documentation of the information collected in line with the above. Given the above safeguards a financial firm may not necessarily expect financial services businesses to avoid or close relationships with "politically exposed persons".

If the risks are understood and properly addressed then the acceptance of such persons becomes a commercial decision as with all other types of customer.

7. For further information about recent developments in response to PEP risk, visit the Wolfsberg Group's website at: www.wolfsberg-principles.com

In addition financial services businesses should be aware of recent guidance from the United States of America on enhanced security for transactions that may involve the proceeds of foreign official corruption. This can be found on the Internet at: www.federalreserve.gov www.acams.org, FATF has issued guidelines in which the term was defined, Wolfsberg Principles, while the USA Patriot Act (SFPP) or the European Union Directive use similar definitions generally made of these five layers: The 3rd EU Directive defines the PEP as 'Natural persons who may involve a reputational risk and who or who have been entrusted with prominent public functions, such as heads of State or of Government, senior politicians, senior Government, judicial or military officials, senior executives of state-owned corporations, important party officials and close family members or close associates of all of these.'

Recommended Tips or Actions to take:

1. Identify the PEP from within the customer base;
2. Identify the country associated with the PEP;
3. Identify the type of business, industry, personal financial situation of the PEP (this is basic Know Your Customer information);
4. Identify the PEP's affiliations, employment, associations, etc. Develop a profile of the PEPs transactions;
5. Determine if the transactions are as expected by comparing the actual transactions to what is known about the PEP;
6. Identify and investigate transactions that are outside the norm, or which are high-risk.
7. Make sure that funds driven by PEPs, are not of corruption or organized crime, and,
8. Perform Risk-Based Approach & Enhanced Due Diligence on them, monitor their activity more closely to understand what their source of funds is, what their source of wealth is, monitoring transaction to see what they're up to, and see if they're playing ground with larger amounts of money that they would be expected to have in the first place.

Who is really a PEP?

1. A head of state or government;
2. A member of the executive council of government or member of a legislature;
3. A deputy minister (or equivalent);
4. An ambassador or an ambassador's attaché or counselor;
5. A military general (or higher rank);
6. A president of a state-owned company or bank;
7. A head of a government agency;
8. A judge; or
9. A leader or president of a political party in a legislature.

This will eventually lead us to also consider family members of an individual described above. In this context, a family member means one of the following:

1. Mother or father;
2. Child;
3. Spouse or common-law partner;
4. Spouse's or common-law partner's mother or father and
5. Brother, sister, half-brother or half-sister (that is, any other child of the individual's mother or father).

Notes:

Senior political figure is a:

Senior figure in the executive, legislative, administrative, military or judicial branches of a government (elected or non-elected), a senior figure of a major political party, or a senior executive of a government owned corporation. It includes any corporate entity, partnership or trust relationship that has been established by, or for the benefit of, a senior political figure.

Immediate family typically includes:

The person's parents, siblings, spouse, children, in-laws, grandparents and grandchildren.

Close associate typically includes:

A person who is widely and publicly known to maintain an unusually close relationship with the PEP and includes a person who is in a position to conduct substantial domestic and international financial transactions on the PEP's behalf.

The screening of large target client databases against large source PEP/KYC databases inevitably leads to the problem of false positive matches given the public nature of the source data; PEP/KYC database records rarely provide unique identifiers such as social security numbers and often do not provide strong ones such as date of birth. Thus, most matches are generated based solely on the similarity between target and source names and can be properly viewed only as a starting point for investigating whether the two matching names represent the same person or entity. In wide-recognition of the infeasibility of investigating all potential matches, there is a consensus in favour of a risk-based approach where priority is given to matches against the highest-risk PEP/KYC records. Such an approach requires some method for grouping or ranking PEP/KYC records by risk.

The conventional method makes use of the various category and attribute fields available in records such as risk type (e.g. PEP, fraud, narcotics, terrorism), political position (e.g. Presidents, Governors, Mayors) and country of origin to create risk groups (e.g. Presidents from Countries X and Y are a high-risk group; Mayor from Country Z, a low-risk one).

A related variant is a rudimentary risk scoring scheme where category values are assigned scores (e.g. Presidents=3, Governors=2, Mayors=1, Country X=3, Country Y=2, Country Z=1) that are aggregated to derive profile scores (e.g. Presidents from Country X=3×3=9, Mayors from Country Z=1×1=1).

These top-down, category-based methods come in infinite varieties but operate from the same overly simplistic premise: namely that the level of risk that best characterizes a general class of PEP/KYC records adequately characterizes each individual member of that class. Local officials from highly developed countries, for example, may be best characterized as low risk as a general class. It does not follow, however, that each individual local official from a highly developed country is adequately characterized as low risk. It certainly does not adequately characterize the local official, for example, who happens to be related to a prominent national political figure or notorious criminal or who is reported in the news to be under suspicion for corruption.

Here are some of the challenges:

- **Original Script Names**

Chinese PEPs can be especially complex as one name in English Latin script can stem from several different original scripts. For example, **Li Jun** can be written as 李郡, 李俊 or 李军 in varying original script versions. Running this name against a PEP list is likely to generate several hits; how would you clear or confirm the match? By posing embarrassing and time consuming questions to the client?

- **Iberia and Latin America**

It is important to consider both paternal and maternal surnames when screening persons from Iberia and Latin America as most individuals are known by one or more of their surnames, or *apellidos*. A cultural understanding of how these surnames are used by different members of the same family is also very valuable. For example, the full surname of General **Augusto Pinochet**, the former President of Chile, is **Pinochet Ugarte** but his children's full surnames are **Pinochet Hiriart**. The practice of which surname or surnames are used can often be quite flexible in some regions, to the extent that sons can be known by completely different surnames to their parents.

- **Translation and Diminutive Forms of Names**

Translation, as opposed to transliteration or transcription, is frequently encountered in some countries. In Georgia for example the male first name Giorgi can sometimes be rendered as George. The son-in-law of Eduard Shevardnadze, **Giorgi Jokhtaberidze** is sometimes referred to as **George Jokhtaberidze**. Diminutive forms such as **Gia Jokhtaberidze** may complicate the situation further.

- **Transliteration of Names**

In Azerbaijan name complexity often stems from the fact that the Azeri alphabet, Latin but containing non-Latin characters, sits alongside transliterations of Russian Cyrillic forms (Russian once being the *lingua franca*). So the public figure **Namiq Tofiq Oglu Aliyev**, a Deputy Tax Minister, can also be rendered **Namig Tofiq Oglu Aliev**, **Namik Tofik Ogly Aliyev** or **Namic Tofic Oglu Aliyev**. As with all transliteration, French, German and other foreign language versions can also be used on a passport.

- **Name Order**

Member of Romanian parliament **Andrei-Gheorghe Király** is also known by the Hungarian version of his name, **András Király**. As Hungarian surnames come before first names, **Király András** would be most frequently encountered in Hungarian language originated sources.

- **Name Inversion**

Name inversion is an issue with Vietnamese public figures. A Vietnamese speaker might be able to tell whether a name had been inverted or not by western press but for non-Vietnamese, identification by name alone poses problems. The President of Vietnam **Triet Minh Nguyen** is also known as **Nguyen Minh Triet**.

- **Change of Name**

Vladimir Zhirinovskiy, a high profile Russian politician was born **Vladimir Eidelstein**. He later replaced his father's surname with the strikingly different **Zhirinovskiv**.



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