



## Politically Exposed Persons

In our series on Anti-Money Laundering and Countering the Financing of Terrorism (“AML/CFT”), we continue this week by providing an understanding of individuals that are classified as ‘Politically Exposed Persons’ (PEPs). PEPs are categorised as potentially high-risk customers that receive particular attention under relevant international standards and guidelines such as the Financial Action Task Force (“FATF”) 40 recommendations. The FATF defines a PEP as “*an individual who is or has been entrusted with a prominent public function*”. Regulation 20 of the Financial Obligations Regulations 2010 (“the FORs”), defines a PEP as:

“(a) individuals such as the Head of State or Government, senior politician, senior government, judicial or military officials, senior executives of State-owned corporations and important political party officials who are or have been entrusted with prominent functions–

(i) by a foreign country; or

(ii) domestically for Trinidad and Tobago;

(b) persons who are or have been entrusted with a prominent function by an international organisation which refers to members of senior management such as directors and members of the board or equivalent functions;

(c) an immediate family member of a person referred to in paragraph (a) such as the spouse, parent, siblings, children and children of the spouse of that person; and

(d) any individual publicly known or actually known to the relevant financial institution to be a close personal or professional associate of the persons referred to in paragraphs (a) and (b) above”

Individuals holding such positions can potentially abuse their power and use his/her influence for the purpose of committing Money Laundering (“ML”) offences and related predicate offences, including corruption and bribery, as well as conducting activity related to Terrorist Financing (“TF”). Family members and close associates of PEPs may also be used to conceal misappropriated funds or assets. AML/CFT guidelines as they relate to PEPs, are intended to be preventive and should not be interpreted as stigmatising all PEPs as being involved in criminal activity. Some PEPs are neither in a position to nor do they abuse their official position. Registrants should not refuse a business relationship with a PEP simply based on the determination that the client is a PEP but should take reasonable measures to determine whether a client, is a foreign or domestic PEP, as well as understand the risks associated with the client.

When onboarding a Foreign PEP, the following persons shall be considered high risk and, as a result, Enhanced Due Diligence (“EDD”) measures should be undertaken for:

(a) the foreign PEP;

(b) any immediate family members of the foreign PEP, such as the spouse, parent,

sibling, children and children of the spouse of the client; and

(c) any individual publicly known or actually known to the Registrant to be a close personal or professional associate of the foreign PEP.

If a client is a Domestic PEP or a director or member of the board (or equivalent function) of an international organization, then EDD measures where higher risks are identified will be undertaken for:

(a) that client;

(b) any immediate family members of that client, such as the spouse, parent, sibling, children and children of the spouse of the client; and

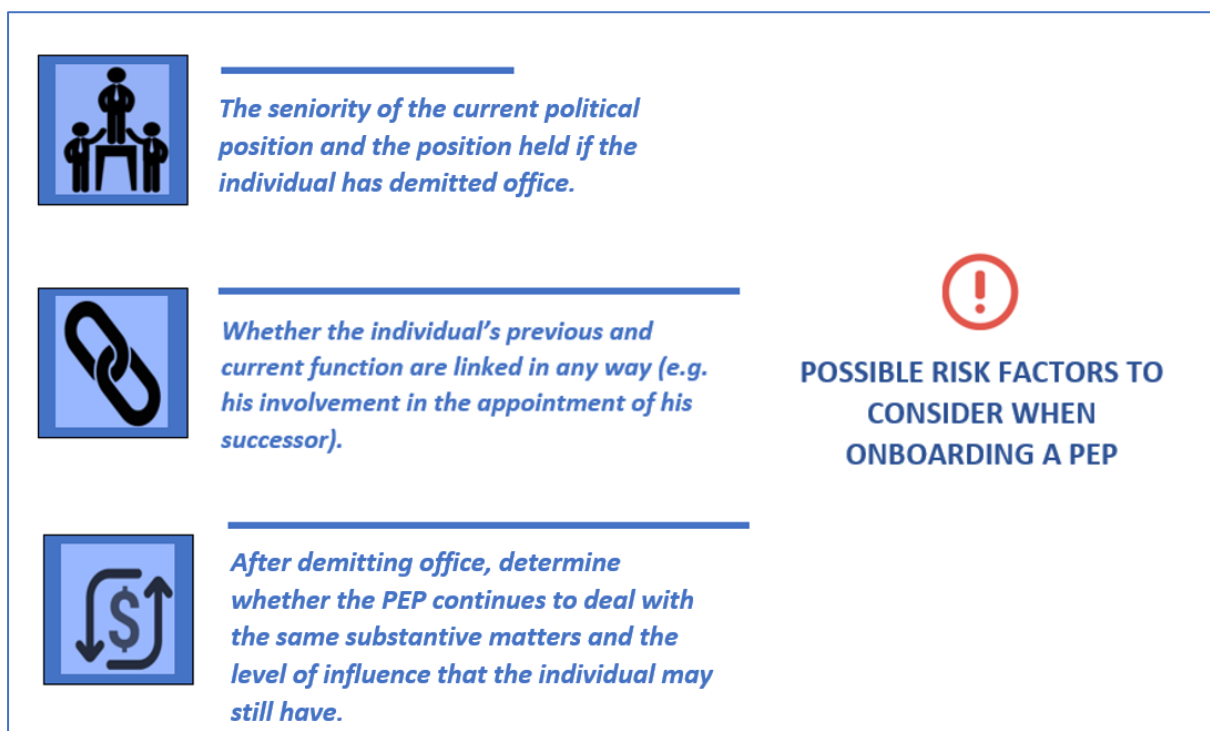
(c) any individual publicly known or actually known to the Registrant to be a close personal or professional associate of the client

Subsequent to determining that the client is a PEP, the Registrant must ensure that approval is obtained and documented from a senior manager or equivalent function to establish the business relationship.

As outlined in **Figure 1**, Registrants should:

- 1) Be cognisant of the risk factors when onboarding a current PEP or one who has demitted office;
- 2) Take all reasonable measures to establish the source of wealth/funds; and
- 3) Conduct enhanced ongoing monitoring of their business transactions and relationships.

Figure 1 Politically Exposed Persons



This enhanced monitoring should include greater oversight of PEPs' accounts and EDD measures. Similarly, after the PEP has demitted office, the period for which family members and close associates of PEPs should be treated as PEPs, is directly related to the risk assessment of the primary PEP.

Registrants should check the potential customer's identification against listings available from reputable local and international sources to confirm PEP status, and to conclude whether there are any red flags that ought to be noted in compiling a client risk profile. Moreover, prior to accepting a PEP as a client, a Registrant should determine whether a PEP is carrying out transactions which originate from or are primarily affiliated with countries named on FATF's Public Statements as high risk and other monitored jurisdictions. Further information on the FATF's Public Statements can be sourced via the link <https://www.ttsec.org.tt/aml-cft/public-statements/>.

Registrants should not establish business relationships with PEPs, if the financial institution knows or has reason to suspect, that the funds were derived from corruption or misuse of public assets. Also, during the onboarding process where information collected by Registrants on a PEP or any other client cannot be verified or is later determined to be false, the Registrant must immediately discontinue any business relationship with the client and report the issue to its Compliance Officer.

In next week's article, the TTSEC will continue with our AML Series and discuss Wire Transfers and Non- Profit Organisations.

**END**

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