



# Politically Exposed Persons

## Politically Exposed Persons (PEPs):

The Money Laundering Regulations (2017) have extended the definition of a Politically Exposed Person (PEP) to include individuals who hold a prominent, domestic position, not just foreign nationals.

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;
- Members of the governing bodies of political parties;
- Judges of the Supreme Court;
- Members of courts of auditors or of the boards of central banks;
- Ambassadors, charges d'affaires (an ambassador's deputy) and high-ranking officers in the armed forces;
- Members of the administrative, management or supervisory bodies of state-owned enterprises – the FCA considers that this only applies to for profit enterprises where the state has ownership of greater than 50%;
- Directors, deputy directors and members of the board or equivalent function of an international [public] organization.

PEPs (as well as their families and persons known to be close associates) are required to be subject to enhanced scrutiny by firm's subject to the PEP Regulations. This is because international standards issued by the Financial Action Taskforce (FATF) recognise that a PEP may be in a position to abuse their public office for private gain and a PEP may use the financial system to launder the proceeds of this abuse of office.

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, however, they must be subject to consideration and scrutiny on the basis of their connection to the PEP.

### Close Associates to PEPs (PEP Associates)

Family members of a PEP are defined by the FCA as including:

- Spouse, or civil partner;
- Children and their spouse or civil partner;
- Parents;
- Siblings.

A 'known close associate' of a PEP (PEP Associates) 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 politically exposed person;
- An individual 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.

If you have any doubts as to whether the individual with whom you are dealing is indeed a PEP, please consult the Mortgage Connect Risk Team via [Compliance@mortgageconnect.co.uk](mailto:Compliance@mortgageconnect.co.uk).



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## Your Responsibilities

The Money Laundering Regulations (2017) require firms to have risk-management systems and procedures in place to identify if their customer is a PEP (or PEP Associate) and to manage the risks arising from the firm's relationship with those customers.

This includes PEPs in intermediary or introducer situations, in line with FATF guidance, the FCA expect firms to completed a number of steps before proceeding with the transaction;

- Identify PEPs & close associates to PEPs in their customer bank or before doing business with a new customer
- Complete a risk assessment
- Put measures in place to mitigate the identified risks as appropriate
- Obtain approval from senior management (the Mortgage Connect Risk Team/MLRO) before commencement of the transaction.

### Summary of Steps:

1. Identify
2. Risk Assessment
3. Enhanced Due Diligence
4. Approval before proceeding

## Identifying a PEP

Effectively, your main obligation is to identify a PEP (or a PEP Associate) and then to ensure that you have robust systems for dealing with them, so that you do not inadvertently carry out business without appropriate safeguards in place.

Fortunately, the network process of completing Electronic ID Verification through the Sanctions Search Enhanced ValidID check will identify PEPs and their associates for you so there are no extra steps required.

*Remember - Should you identify one of your customers as a PEP or associate, their access to financial products and services is not restricted, nor is any financial crime or illegal activity implied; however, such customers require a closer degree of due diligence prior to any financial services being provided.*

## PEP Match – I've found a PEP what next?

When you find a match that does not always mean that the customer 100% the PEP or an associate, no matter how sophisticated a system is it will sometimes identify individuals with the same names as PEPs. This is known as a 'False Match' and is probably the most common match you will find, in that case follow the process below.

If the match is correct you are dealing with a PEP or a PEP Associate and it is important that you do not to decline or close a business relationship with them merely because they are a PEP match, these people are still able to access financial products and services.

What you must do is conduct an assessment of the risk of dealing with a PEP or PEP Associate on a 'case by case' assessment and then to complete due diligence to address those risks. And then obtain approval to proceed you will find the process for this later in this document.

You may, after collecting appropriate information and completing its assessment, conclude the risks posed by a customer are higher than can be effectively mitigated; in such cases it may be appropriate to decline or close that relationship, but please do this with consultation of the Mortgage Connect Risk Team.



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## False Match

### Step 1

Complete Due Diligence to ensure that the PEP/PEP Associate is not your Customer. You will need to distinguish the PEP and the customer to be different people. Consider;

- Date of Birth
- Location
- Occupation

*TIP: You need to explain why you believe it's not the same person*

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### Step 2

Once you have completed the Due Diligence record this on the file on The Key and document the reasoning for your assessment that this was a "false match" within the Notes on the file

Hints & Tips below

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### Step 3

You can then proceed to application in the normal way

The Mortgage Connect Quality Team will review the file in the normal way through sampling once application has been submitted, please be aware the above process will be considered in the file review grading

## False Match Hints & Tips

Our experience would suggest that a "false match" is the most common match that you will encounter and is most likely due to your customer having the same name as a PEP or a PEP Associate.

In this circumstance we would recommend that you distinguish your customer from the PEP/PEP Associate based on the facts which you can prove. Fortunately, PEPs can usually be found through simple internet searches which can be very useful for this.

Consider the points below:

- What is the DOB for the PEP? Is it the same as your customer?
- What country does the PEP live in? If it is not the UK/the same as your customer this may not be the same person.
- What are the professions of your customer and the PEP? Are they different?
- When was the PEP in a position of power/influence? Was that too long ago to have been your customer? For example were they a politician in 2002 but your customer was born in 1998.

Remember - PEPs are not criminals, they are most likely doing nothing wrong so you do not have to be concerned around risks of 'tipping off' (unless of course you have other concerns) so you may want to discuss what you have found with them. They may be able to help, it might not have been the first time they have had this issue.



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## PEP Match

Remember a PEP Match does not mean they are a criminal or that you cannot do business with them, but it does mean you have increased responsibilities and a slightly different process to follow. You DO however need approval from the Mortgage Connect Risk Team before proceeding.

Details below;

### Step 1

Consider the risks that this PEP/PEP Associate Customer will present by completing a 'risk assessment' (you will find further guidance of risks later in this guide)

*TIP: Consider the risks in relation to the transaction they are looking to do*

Complete Enhanced Due Diligence to mitigate the risks identified

### Step 2

Once you have completed the risk assessment and the appropriate risk mitigating Due Diligence this should be recorded on the file on The Key

Then notify the Mortgage Connect Risk Team by emailing details to [Compliance@mortgageconnect.co.uk](mailto:Compliance@mortgageconnect.co.uk) for review

### Step 3

The Mortgage Connect Risk Team will review the file, the risk assessment and the appropriate risk mitigating Due Diligence within 72 hours, and confirm the next steps which will be one of the following;

- Consider the risk assessment & Due Diligence to be appropriate and grant permission to proceed.
- Request further information and/or Due Diligence before proceeding
- Judge the risk to be too significant and recommend you exit the relationship

If given approval you can then proceed to application in the normal way

## Risks – Risk Assessment

The regulatory guidance would suggest that PEPs are very risky people to do business with but here at Mortgage Connect and the sorts of products we deal with we consider them to be fairly low risk, by which we mean uncommon we will face a PEP who is committing a crime. Of course, if we do encounter one this is equally as important as in any other sector or business.

The main area of risk we are likely to encounter is mortgage deposit funds coming from illicit sources, for example a politician using official funds or their expenses towards a deposit on a house. In which case obtaining robust proof of deposit documents will hopefully allow you to dismiss that risk. Of course, with the measures we have in place in the UK it's highly likely that they would have been caught doing that long before meeting with us. But of course, that risk does still exist and needs to be considered.

It is important to consider there could be other risks, even more than 1 per PEP, such as money laundering through the transaction or risks of inappropriate individuals benefiting from the transaction as well as the good old fashioned, if not a little cliché, "hand in the cookie jar" or accepting a brown envelope stuffed with used £50 notes.



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## Risk Mitigating Due Diligence

As stated above we feel the main way to mitigate these risks are really getting to the bottom of the source of funds for the deposit funds. If you can prove that the funds are legitimate and their build up you are likely to have no issues and as you know obtaining and reviewing the proof of deposit is already an important part of our advice process, this may address these risks on its own.

The point where you may need to go a little further is if your customer is a PEP Associate and they are being gifted the funds for their deposit from PEP. In which case I'm sure you would agree this would represent a bigger risk, but robust due diligence on the gifted funds may well address this risk and alleviate any concerns.

Other forms of enhanced due diligence you may need consider:

*These examples are good practice when you have concerns with a case or dealing with a higher risk customer*

- Obtain additional Proof of Deposit going further back than 3 months to show the buildup of funds
- Obtain further Bank statements than the typical 3 months to fully understand account conduct/evidence income (with these types of customer you may well see a trend of expense payments being received)
- Obtain further Proof of income than the typical 3 months
- Broader research through internet searches into your customer

## Further Guidance

Should you need further guidance or support please contact the Mortgage Connect Risk Team who will be more than happy to assist on [Compliance@mortgageconnect.co.uk](mailto:Compliance@mortgageconnect.co.uk)