FATF Guidance: Politically Exposed Persons (Recommendations 12 and 22)

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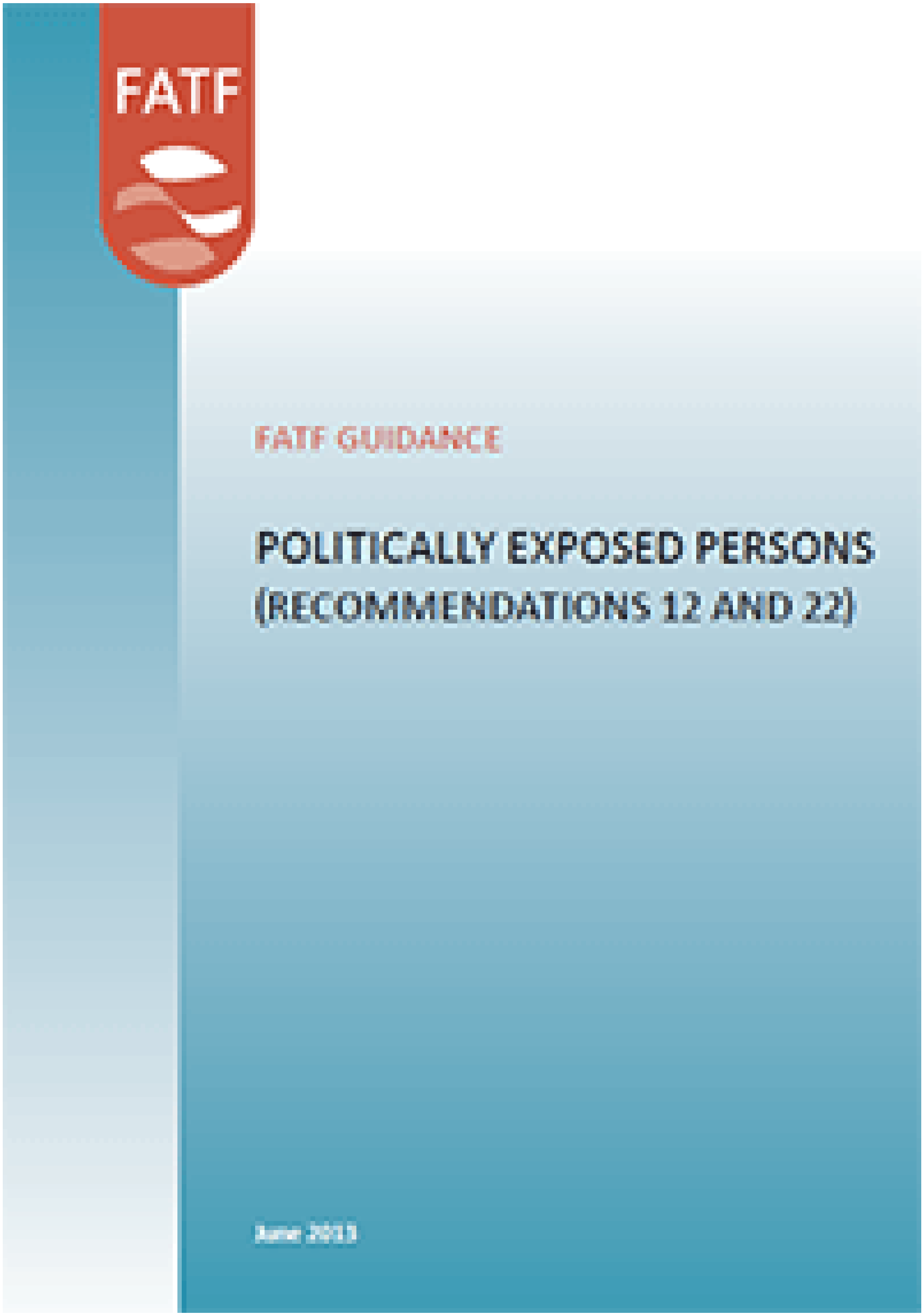
FATF GUIDANCE

POLITICALLY EXPOSED PERSONS (RECOMMENDATIONS 12 AND 22)

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A *politically exposed person* (PEP) is an individual who is or has been entrusted with a prominent function. Many PEPs hold positions that can be abused for the purpose of laundering illicit funds or other predicate offences such as corruption or bribery. Because of the risks associated with PEPs, the FATF Recommendations require the application of additional AML/CFT measures to business relationships with PEPs. These requirements are preventive (not criminal) in nature, and should not be interpreted as meaning that all PEPs are involved in criminal activity.

The FATF has developed guidance which will assist in the effective implementation of these additional measures for foreign, domestic and international organisation PEPs, their family members and close associates, as set out in Recommendations 12 and 22.

Key to the effective implementation of Recommendation 12 is the effective implementation of customer due diligence requirements: for financial institutions to know who their customers are. External sources of information for determining PEPs exist, such as commercial and other databases, and the paper provides some guidance on the use of these, and other, external sources of information. However, these databases are not sufficient to comply with the PEPs requirements, nor does FATF require the use of such databases.

The annex to the guidance sets out a collection of red flags and indicators for suspicion that can be used to assist in the detection of misuse of the financial systems by PEPs during a customer relationship. Examples of such red flags are the use of corporate vehicles to obscure ownership by PEPs, information being provided by the PEP being inconsistent with other publicly available information (such as asset declarations and published official salaries), or doing business with PEPs that are connected to higher risk countries (such as those for which FATF issues public statements) or high risk industries or sectors.