

The Wolfsberg AML Principles Frequently Asked Questions with Regard to Politically Exposed Persons

Wolfsberg Principles

Art. 2.5 Public officials:

Individuals who have or have had positions of public trust such as government officials, senior executives of government corporations, politicians, important political party officials, etc. and their families and close associates require heightened scrutiny.

Q. 1 How to define "Politically Exposed Persons"?

- A.** The term "politically exposed persons" ("PEP") applies to persons who perform important public functions for a state. The definition used by regulators or in guidance is usually very general and leaves room for interpretation. For example the Swiss Federal Banking Commission in its guidelines on money laundering uses the term "person occupying an important public function", the US interagency guidance uses "senior foreign political figure" and the BIS paper Customer due diligence for banks says "potentates".
- The term should be understood to include persons whose current or former („Rule of thumb": 1 year after giving up any political function) position can attract publicity beyond the borders of the country concerned and whose financial circumstances may be the subject of additional public interest. In specific cases, local factors in the country concerned, such as the political and social environment, should be considered when deciding whether a person falls within the definition.

The following examples are intended to serve as aids to interpretation:

- Heads of state, government and cabinet ministers;
- Influential functionaries in nationalized industries and government administration;
- Senior judges;
- Senior party functionaries;
- Senior and/or influential officials, functionaries and military leaders and people with similar functions in international or supranational organizations;
- Members of ruling royal families;
- Senior and/or influential representatives of religious organizations (if these functions are connected with political, judicial, military or administrative responsibilities)

Q. 2 How to define "families"?

- A.** The term families should include close family members such as spouses, children, parents and siblings and may also include other blood relatives and relatives by marriage.

Q.3 How to define "close associates"?

- A.** The category of closely associated persons should include close business colleagues and personal advisors/consultants to the politically exposed person as well as persons who obviously benefit significantly from being close to such a person.

Q.4 How should assets of political parties be treated?

- A. Political parties are not covered by the definition "Politically Exposed Person". However, Banks should consider to apply heightened scrutiny to business relationships holding assets of foreign political parties.

Q.5 How to proceed to recognize a Politically Exposed Person or families/close associates of such a person?

- A. Identifying Politically Exposed Persons can be a difficult undertaking, particularly, if the customer fails to provide important information or even gives false information. Despite all the banks' efforts at recognizing Politically Exposed Persons, it is a fact that they do not have the necessary powers, means nor information at their disposal to detect such persons. Banks are restricted in what information they can obtain. They must rely on the information they are given by clients and that can be gleaned from business documents or from the media. In particular, when close associates or families of a Politically Exposed Person open a business relationship with a bank it is often impossible to establish that relationship a "PEP relationship" on the basis of the limited information available to the banks.

The following prompts might - in addition to the standardized KyC procedures - be appropriate to recognize a Politically Exposed Person:

- The question of whether clients or other persons involved in the business relationship (see below) perform a political function should form part of the standardized account opening process, especially in cases of clients from corruption-prone countries.
- To let client advisor deal exclusively with clients from a specific country/region might improve their knowledge and understanding of the political situation in that country/region.
- The issue of Politically Exposed Persons should form part of the regular KyC training programs.
- Banks may use databases listing names of Politically Exposed Persons (and their entourage). In this regard it would be helpful if authorities issuing directives on how to deal with Politically Exposed Person would support the banks.

Q. 6 What means "heightened scrutiny"?

- A. In addition to the generally applicable "Know your customer" rules a detailed approval process, including a function independent from the business line (e.g. Compliance) and senior management approval should apply. In addition, such business relationships should be subjected to additional controls and a more detailed examination at least once a year.

Q.7 How has the Politically exposed person to be involved in the business relationship" to apply the specific PEP-rules?

- A. Heightened scrutiny has to be applied whenever the Politically Exposed Persons/families/associates is the contracting party of the Bank or the beneficial owner of the assets concerned, or has power of disposal over said assets by virtue of a power of attorney or signature authorization.