

# Domestic PEPs

In the wake of the recent Nigel Farage/Coutts de-banking controversy, the FCA has announced that it is reviewing the treatment of domestic Politically Exposed Persons (PEPs) by financial services firms. The review, which will consider the issue in the context of the requirements set out in the UK Money Laundering Regulations and the associated FCA guidance, is expected to conclude by the end of June 2024.

## #1

### What is the background?

Under the UK Money Laundering Regulations, relevant firms must conduct **customer due diligence** - a process which involves collecting and verifying information about a customer.

Recognising that people entrusted with **prominent public functions** may be able to abuse their public office for private gain, and may use the financial system to launder the proceeds of this abuse, the Regulations require firms to identify PEPs (and their family members or known close associates) and then apply **extra measures** when dealing with them.

## #2

### What is the law?

The Regulations state that where a firm proposes to have (or to continue) a relationship with a PEP or a family member/known close associate of a PEP, it is required to:

- Conduct **enhanced due diligence** (EDD)
- Have **approval from senior management** for establishing or continuing the business relationship
- Take adequate measures to establish the customer's **source of wealth and source of funds**
- Conduct **enhanced ongoing monitoring** of the business relationship.

## #3

### What is the FCA guidance?

The FCA guidance emphasises that firms must take a **proportionate and risk-based approach** when dealing with PEPs. It makes clear that, in the absence of other risk factors, domestic PEPs and their family members/close associates, should be treated as 'lower risk'.

This means that **when conducting the required EDD for domestic PEPs**, firms should use information that is reasonably available to them, including information in the public domain, and take less intrusive steps to establish their source of wealth than they use for other, non-domestic PEPs.

