



Smart tips on the treatment of Politically Exposed Persons

Anti-Money Laundering and Counter-Financing of Terrorism Measures

Definition of Politically Exposed Persons

A *Politically Exposed Person (PEP)* refers to a natural person who is or has been entrusted with a prominent public function.

Categories of PEPs

PEPs can be classified into three categories based on where they are entrusted, or have been entrusted, with the prominent public function:



Hong Kong PEP



Non-Hong Kong
PEP



International
organisation PEP

Why are PEPs subject to special treatment from AML/CFT perspective?

Given their positions, PEPs may have power and influence that can potentially be abused for the purpose of committing predicate offences and related money laundering (ML) offences, including corruption and bribery, which warrant additional financial checks as part of a long standing international standard.

How to interpret the concept of “once a PEP, always a PEP”?

The language “*is or has been*” in the PEP definition suggests that a person’s PEP status remains unchanged even if he or she is no longer entrusted with a prominent public function. While the PEP status remains, whether or not a former PEP presents higher risks and therefore should be subject to enhanced due diligence (EDD) should be based on a detailed assessment (see p.7 for guidance of “Treatment of former PEPs”).



The requirements on PEPs are **preventive** in nature, and should not be interpreted as stigmatising PEPs as being involved in criminal activities.



What constitutes a “prominent public function”

Example of factors to consider



Powers and responsibilities associated with the public function

→ e.g. ability to control or divert public assets and funds; influence over government procurement processes



Level of corruption risk associated with the jurisdiction where the individual holds the public function

→ e.g. perceived levels of public sector corruption; effectiveness of a jurisdiction’s anti-bribery and corruption efforts



Size and organisational framework of the government or international organisation concerned

→ e.g. number of government officials; size of government budget

Non-exhaustive examples of ‘prominent public functions’ in Hong Kong

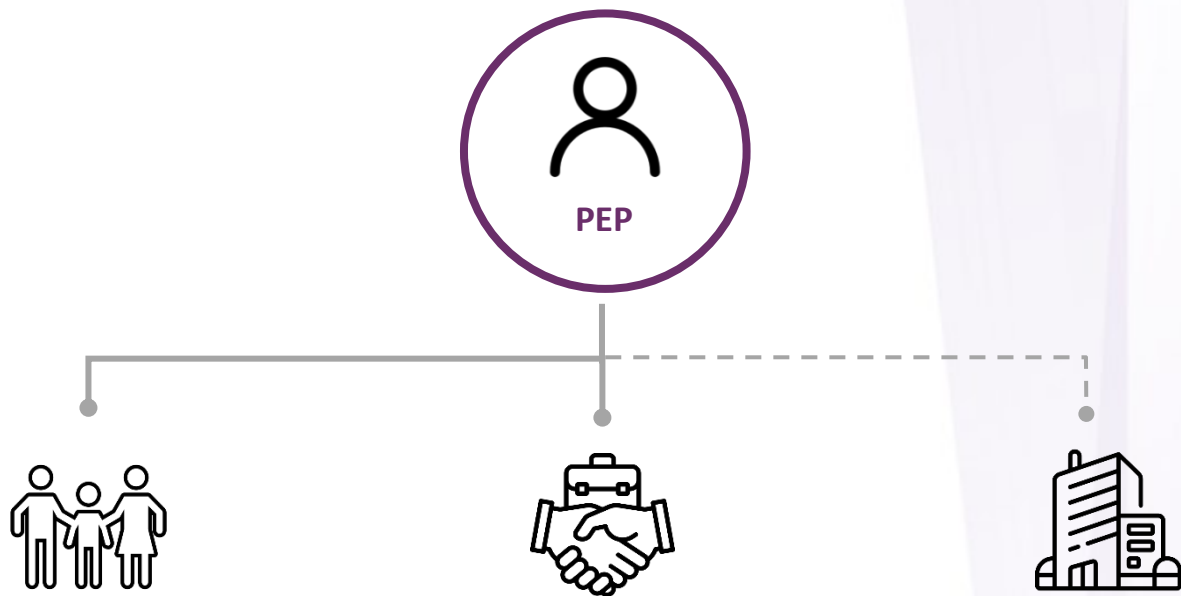
Example of positions	Specific examples in Hong Kong
Head of government and senior government officials	The Chief Executive; principal officials under the Political Appointment System; Permanent Secretaries; Heads of Departments and the equivalent top-level tier in the civil service
Senior judicial officials	Judges of the Court of Final Appeal
Senior politicians	Members of the Executive Council; members of the Legislative Council (but not members of lower public bodies such as the District Council)
Senior executives of government-owned corporations	Heads (e.g. Chairperson of Board of Directors, Chief Executive Officer) of significant government-owned corporations, and their deputies
Important political party officials	Leaders and members of the executive committee/board of a major or influential political party



Middle-ranking or more junior officials of any of the categories mentioned above are excluded from the definition of PEP.



Family members and close associates of PEPs, legal entities with PEP risks



Family members

- Adopt a proportionate approach to determine how close their relationships with the PEP are taking into account social-economic and cultural contexts
- Be reasonable in the customer due diligence process as they do not hold the public functions
- As the relationship may change (e.g. divorce, separation, estrangement, death, or termination of commercial relationship), case-by-case assessment should be made to determine if the person should be subject to PEP requirements

Close associates

Entities with PEP risks

- Follow risk-based approach – i.e. a risk assessment on a corporate customer should take into account its PEP exposure, if any
- Take into account the risk profile of the entity and its vulnerability for abuse having regard to the PEP's influence over the entity (e.g. a PEP serving in a publicly listed or well-regulated entity generally presents a lower risk; whereas a PEP in a private entity with significant control or ability to divert funds may pose a higher risk)



Why are PEP requirements applied to their family members and close associates?

A PEP may use his/her family members and close associates to move the proceeds of crime on his/her behalf, or to facilitate placement and disguise. Therefore, the international standards on PEPs also apply to family members and close associates of PEPs.



Identification of PEPs, their family members and close associates

Determine whether a customer or a beneficial owner of a customer is a PEP through risk-based procedures; utilize a combination of information sources to ensure effective risk assessment.

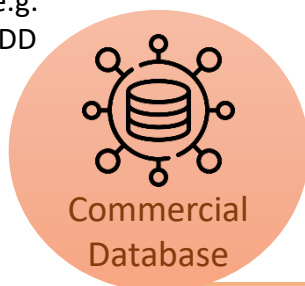


- CDD is always the **primary source** for PEP identification
- Gather sufficient details from the customer (including his or her occupation and employment) before using other sources of information



Ongoing monitoring

- Monitoring of customer base to identify any changes in PEP status, customer profile or account activities e.g. through ongoing CDD and transaction monitoring



- Supplements, but does not replace, traditional CDD process for PEP identification
- Carefully assess the database's functionality, reliability and overall appropriateness to ensure it is fit for purpose
- Provide staff with clear guidance on handling discrepancies between the database's definitions and internal policies



- Should not rely solely on customer declarations of PEP status due to potential false / inaccurate information
- Where declarations are used, corroborate with other CDD information

- May use publicly available information, such as reliable media sources and government websites to gather customer and country information (e.g. declaration of interests by government officials)
- Establish internal guidance as to what is considered to be reliable sources

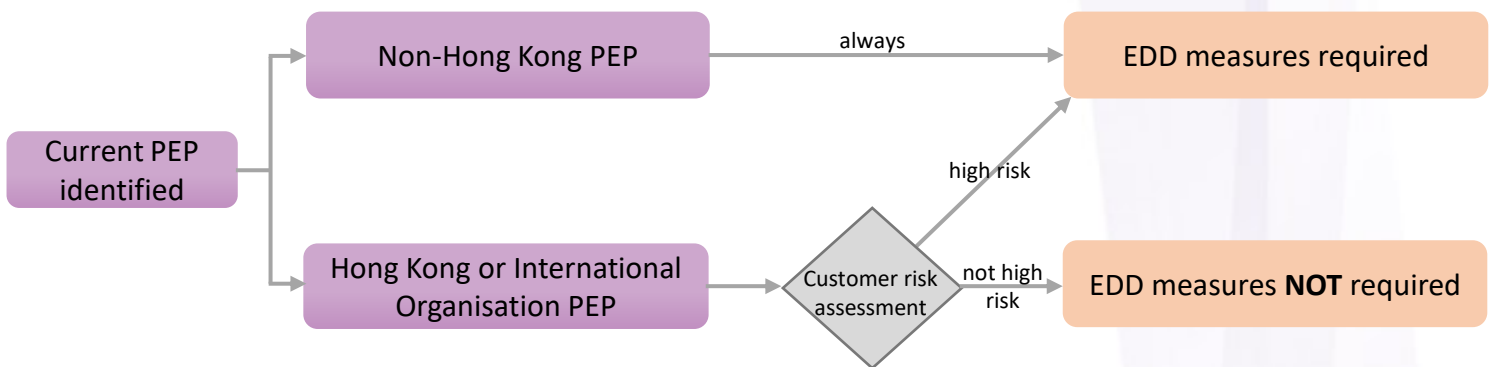




Application of enhanced due diligence measures

Establish appropriate policies and procedures to assess the risks associated with different types of PEPs and apply proportionate measures that ensure fair treatment of PEPs and avoid unnecessary barriers to banking services. Monitor implementation through establishing effective complaint handling processes and providing regular training to staff.

When is PEP-specific EDD measures to be performed?



Non-Hong Kong PEP:

- PEP-specific EDD measures are **required** regardless of the level of risk
- Extent of EDD measures proportionate to the level of PEP-related risks (e.g. nature and seniority of position; level of corruption in relevant jurisdiction)
- In case of presence of other non-PEP related higher-risk factors, apply additional and proportionate EDD measures

Hong Kong or International organisation PEP:

- Should be treated as a regular customer **unless** the customer risk assessment, taking into account all relevant risk factors, reveals that the business relationship with the PEP is of a **high ML/TF risk**
- If this is the case, PEP-specific EDD measures should be triggered, the extent of which should be proportionate to the level of risk

What are the PEP-specific EDD measures?



Take reasonable measures to establish the PEP's source of wealth and source of funds



Obtain approval from senior management for establishing or continuing the business relationship



Conduct enhanced ongoing monitoring of business relationships, including annual CDD reviews



Good practices for handling Hong Kong PEPs


Hong Kong has a well-established and effective anti-corruption regime. Hong Kong ML/TF risk assessment reports have also identified that domestic corruption presents low ML threat. Therefore, in the absence of higher-risk indicators, Hong Kong PEPs should generally present lower risks than non-Hong Kong PEPs.

❖ Apply PEP-specific EDD measures only for high-risk business relationship

Good Practice 1

- Customer X, a member of the Legislative Council in Hong Kong, applied for a residential mortgage loan from Bank A
- During onboarding, Bank A determined that Customer X was a Hong Kong PEP but did not identify any other higher-risk factors associated with the business relationship
- In accordance with Bank A's policy, Customer X was onboarded following the standard CDD process and no PEP-specific EDD measures were conducted

Good Practice 2

- Customer Y was a private company engaged in a high-risk industry and had a senior politician in Hong Kong as its beneficial owner 
- During onboarding, Bank B determined that the beneficial owner of Customer Y was a Hong Kong PEP. Bank B further assessed the PEP business relationship as posing a high ML/TF risk taking into account the business nature of Customer Y and the PEP involvement
- In accordance with Bank B's policy, Customer Y was subject to EDD measures with regard to its business nature and also the PEP-specific EDD measures

❖ Adopt a risk-based approach when applying PEP-specific EDD measures

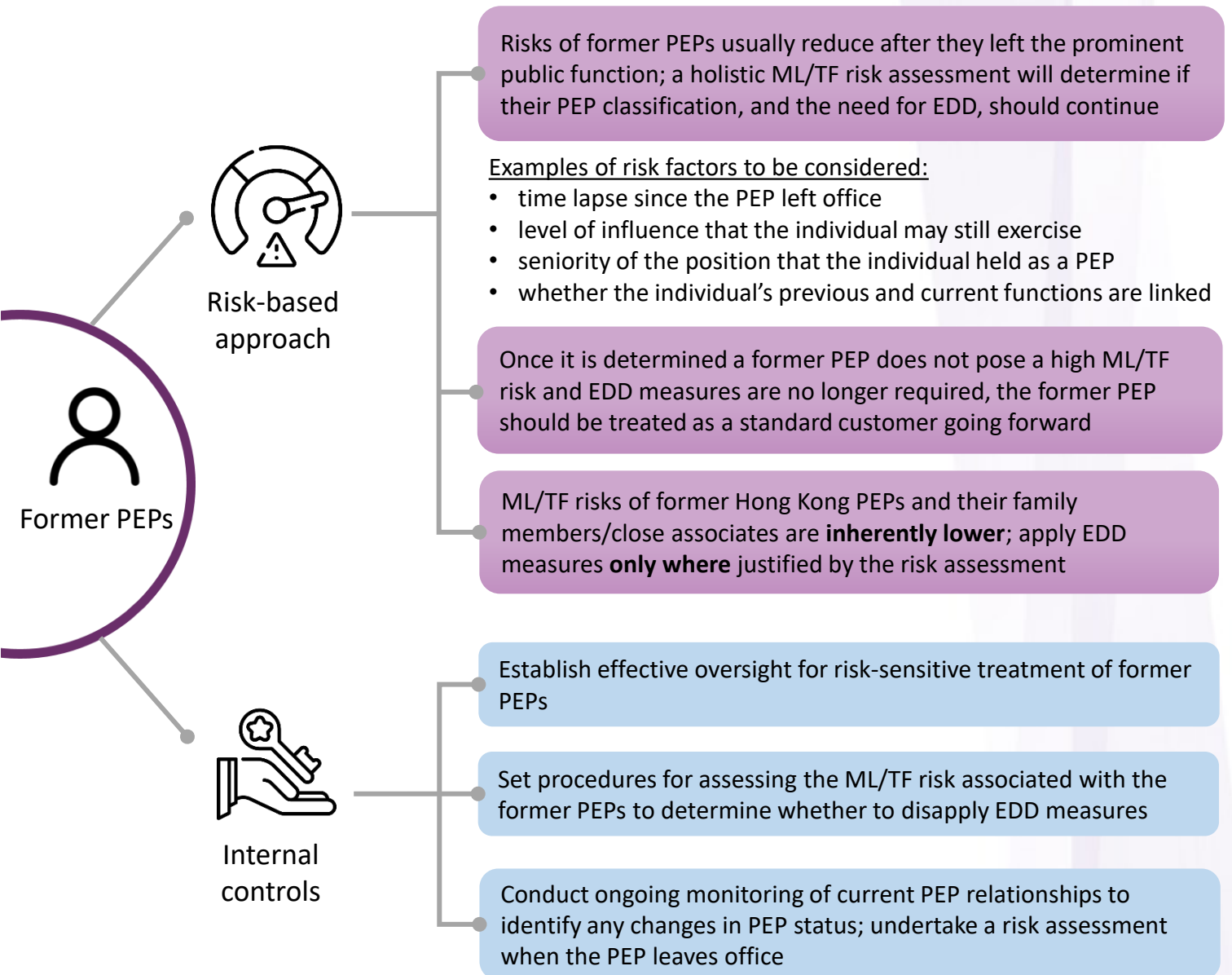
Good Practice 3

- Customer Z was a senior government official in Hong Kong and was assigned a high-risk rating by Bank C due to multiple higher-risk factors
- During onboarding, Customer Z attributed the majority of his wealth to salary and returns from property investment
- In establishing Customer Z's source of wealth, rather than requesting the customer to provide bank statements dating back years, Bank C utilized publicly available information to estimate the customer's annual income. Specifically, Bank C referenced the pay scales published by the Civil Service Bureau and the declaration of interests of Politically Appointed Officials to corroborate the information obtained from Customer Z. Additionally, Bank C conducted market research and land searches to estimate the value of Customer Z's self-owned properties to arrive at a reasonable estimation of the customer's net worth



Treatment of former PEPs

A former PEP is an individual who has been but is no longer entrusted with a prominent public function, either within or outside Hong Kong.



Need more Guidance?

The HKMA has provided specific guidance on establishing source of wealth in a number of occasions, including the [AML seminars](#) and the circular dated 7 March 2023 on [Smart tips for Private Banking](#). Reference can also be made to the industry [Frequently Asked Questions](#) published by Hong Kong Association of Banks in relation to AML/CFT.