

## **Definition - Politically exposed person (PEP)**

A 'politically exposed person' (PEP) is an individual:

- who holds a prominent public position or function in a government body or an international organisation, or
- an immediate family member or close associate of an individual who holds a prominent public position or function in a government body or an international organisation.

There are three categories of PEPs:

- Domestic PEPs are individuals who are entrusted domestically with a prominent public position or function in an Australian government body
- Foreign PEPs are individuals who are entrusted with a prominent public position or function in a government body of a foreign country.
- International organisation PEPs are individuals who are entrusted with a prominent public position or function in an international organisation.

## **What is a Prominent public position?**

A prominent public position or function in a government body or an international organisation includes:

- Head of State or head of a country or government
- government minister or equivalent senior politician
- senior government official
- Judge of the High Court of Australia, the Federal Court of Australia or a Supreme Court of a State or Territory, or a Judge of a court of equivalent seniority in a foreign country or international organisation
- governor of a central bank or any other position that has comparable influence to the Governor of the Reserve Bank of Australia
- senior foreign representative, ambassador, high commissioner
- high-ranking member of the armed forces
- board chair, chief executive, or chief financial officer of, or any other position that has comparable influence in, any State enterprise or international organisation.

## **Money laundering and terrorism financing risk associated with PEPs**

Due to their position and influence it is recognised that many PEPs are in positions that potentially can be abused for money laundering and related predicate offences, including corruption and bribery, as well as activity related to terrorism financing. The potential risks associated with PEPs justify the application of additional AML/CTF measures to prevent and detect this conduct.

However, it is noted that if a person is a PEP, this does not mean that there is an automatic link to criminal activities or abuse of the financial system. The additional AML/CTF measures

applied in the case of PEPs are preventative, and should not be interpreted as stigmatising PEPs as being involved in criminal activity; rather these measures recognise the increased risk, including opportunity, associated with holding this type of role.

## **Risks associated with different categories of PEPs**

Reporting entities must automatically treat all foreign PEPs as high-risk customers.

Domestic PEPs and 'international organisation' PEPs may also be considered to be high risk depending on the circumstances. Reporting entities should conduct a risk assessment on domestic and international organisation PEPs before deciding whether to apply their ECDD program to these customers.

Effective due diligence and risk assessment processes enable reporting entities to identify customers who are PEPs. These processes also support the entity's ongoing transaction monitoring. A reporting entity is better able to detect suspicious transactions or behaviour if it is aware that a customer is a PEP and is aware of the increased AML/CTF risks associated with PEPs. This knowledge will also enable a reporting entity to better understand what is normal, legitimate financial behaviour for a PEP customer and identify unusual or suspicious activity by that customer.

Not all PEPs present the same AML/CTF risk. If a PEP undertakes transactions of the type that would normally be undertaken by non-PEP customers, and there is no evidence to suggest the funds came from an unusual source, a reporting entity's normal procedures may be sufficient to mitigate the ML/TF risk. For example, normal procedure may involve asking the customer general questions about the transaction and documenting the responses as normal.

In some circumstances reporting entities should consider obtaining further information from a PEP and seek more documentary evidence to verify the information provided. For example:

- where the jurisdiction that appointed the PEP is a higher risk jurisdiction
- where the funding for the transaction is substantial or from an unusual source
- where the type of transaction is a higher risk transaction; for example, a large cash transaction.

## **Determine whether a customer or beneficial owner is a PEP**

A reporting entity must have risk-based procedures to determine whether a customer is a PEP.

These procedures may include:

- checking the customer's background through an internet search
- consulting reports and databases released by various organisations that specialise in analysing corruption risks.

If the reporting entity needs to conduct more thorough checks, or if there is a high likelihood of a reporting entity having customers who are PEPs, the reporting entity may find that subscribing to a specialist PEP database is an appropriate risk mitigation tool.

AUSTRAC notes, however, that over-reliance on such databases may increase the risk that reporting entities will wrongly assume that if a customer's name is not in the database, then the customer is not a PEP. Reporting entities should also be aware that commercial databases can have limitations – for example, these databases:

- may not be as comprehensive or reliable as is believed

- may not align with the PEP definition used in Australia if it is a 'global' database
- may not include certain names or may exclude certain categories of PEPs
- may contain inconsistent transliterations and spellings of names which may affect a reporting entity's ability to match names.

## **When does a person cease to be considered a PEP?**

As described above, a PEP is someone who occupies a prominent public position. Once a person no longer holds that position, they are no longer considered a PEP. However, a reporting entity should continue to apply a risk-based approach to determine whether an existing customer who is no longer a PEP should continue to be treated as a high-risk customer.

Higher risk PEPs are also more likely to continue to pose a ML/TF risk after they cease holding a public position. As such, reporting entities may choose to undertake enhanced customer due diligence (ECDD) for a longer period for a former PEP under the ECDD provisions in Chapter 15 of the AML/CTF Rules.