

## Aspects of identifying status of politically exposed person (2) (3/31/20)

The topic continued from [MindLink.lv news 24.07.2020](#). Based on EU and Latvian legislation, in 2019 the Financial Intelligence Unit drew up guidelines,<sup>1</sup> describing methods for identifying politically exposed persons ("PEPs").

The first and most efficient way is to adopt customer identification questionnaires or declarations. An entity that is subject to the Anti Money Laundering and Counter Terrorism and Proliferation Financing ("AML/CTPF") Act should include in their customer identification questionnaire any PEP positions that are specified in their internal control system and grant this status to the customer. The customer himself completes the questionnaire and states whether he is a PEP, but this does not release the AML/CTPF subject from the obligation to verify that information. At the same time, the customer should be given an opportunity to specify a different position if the customer considers himself a PEP whose position is not defined by the AML/CTPF subject's internal control system.

The second method of identifying a PEP is customer verification on databases. This check is usually combined with the customer identification stage. However, the AML/CTPF subject cannot be certain that a commercial database has information on all PEPs, their family members or close associates. Thus, we cannot fully trust information available from a commercial database, as it can be, for example, incomplete or outdated.

The AML/CTPF subject can conduct a customer check also on publicly available databases. Checks on Latvian-resident customers should be made on the Database of Politically Exposed Persons or on the Database of Declarations of Public Officials maintained by the State Revenue Service. Most member states require officials to declare information on themselves and their family members, and this information is publicly available. The AML/CTPF subject can use those databases to verify whether the customer or its ultimate beneficial owner should be recognised as a PEP and to assess the sources of funds the person has stated in relation to the information obtained through customer identification. However, we should not forget that the requirements for persons who are required to declare their income and the requirements for information to be given on their declaration may vary from country to country because of different laws and regulations.

The third method, which may be viewed only as an auxiliary tool for verifying customer identity, is customer verification via online and mass media resources. It is possible that some information that is not included in professional databases appears in the media. Yet we need to remember that information posted in online and mass media resources is not always true.

### Customer identification and verification points

- The AML/CTPF subject must not relax or simplify the customer identification process in the case of a PEP but may impose criteria that are more stringent than what the law requires. For example, a risk factor is a high level of corruption risk in the country where the PEP operates. If a person has been a PEP, the AML/CTPF subject can still classify that person as a PEP after critically evaluating their previous position.
- The AML/CTPF subject's internal control system must clearly define the responsibility of the person

making the final decision to establish a business relationship with a PEP, their family member or close associate. The AML/CTPF subject should always document its decisions and the reasons for establishing or rejecting a business relationship.

- The AML/CTPF subject must receive approval from its top management if the customer or its ultimate beneficial owner is found to be a PEP, their family member or close associate before entering into or during a business relationship.

## Conclusions

1. Red flags can help identify cases where PEPs, their family members or close associates may pose additional risk. These persons are always high-risk customers.
2. Extra scrutiny and due diligence reviews are required for not only PEPs but also their family members and close associates, who might be more difficult to identify.
3. To verify the PEP identity, we should use all possible methods, such as preparing a special questionnaire and checks on a commercial database.
4. Several tools can be created for PEP identification but this process should be simplified.
5. We are not allowed to establish a business relationship with a PEP without receiving approval from our top management.

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<sup>1</sup> Guidelines for managing risks inherent in politically exposed persons, their family members and close associates. The Financial Intelligence Unit, 2019 [https://www.fid.gov.lv/images/Articles/2019/PPN\\_Risku\\_Vadlinijas\\_2019.pdf](https://www.fid.gov.lv/images/Articles/2019/PPN_Risku_Vadlinijas_2019.pdf)