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# PEP Guidance Checklist

FINTRAIL has designed a checklist of points to consider for PEP customers across the anti-financial crime framework.

## **Governance**

Is the firm collecting relevant and up-to-date management information (“MI”) on PEPs? This could include total number of PEP customers, family members and known close associates split by type (e.g. domestic versus non-domestic, higher versus lower risk PEPs)

Is this MI presented to the board, senior management or risk committee (or equivalent) on a regular basis and also tracked against the firm’s risk appetite?

Does the MLRO report include a section on the firm’s PEP risk exposure including relevant MI?

Does the firm have a PEP log in place? If so, does it reference the date of onboarding, PEP classification (e.g. domestic or non-domestic), PEP position, risk level, additional information on the risk exposure (e.g. negative news, non-domestic PEP located in a high-risk jurisdiction), expected use of the account, PEP relationship with the firm (e.g. direct customer, UBO of customer), information on the source of wealth, and date of next review?

## **Policies and procedures**

Does the firm’s risk appetite exclude PEP customers? This is likely to be considered a regulatory breach.

Is the definition of a PEP, family member or known close associate defined in the firm’s policies and procedures in line with the MLRs and regulatory expectations?

Do the firm’s customer due diligence procedures clearly document in what scenarios the different levels of EDD will be applied and what due diligence measures will be applied?

Do the firm’s policies and procedures cover the regulatory expectations of onboarding, monitoring and ongoing management of PEP customers?

Has the firm considered how long an individual is classified as a PEP after leaving office? Has a risk-based approach been applied to declassification (e.g. time frames depending on the position of the PEP)?

## **Financial crime risk assessment**

Does the firm’s business-wide risk assessment consider its PEP customer risk? For some business models the PEP exposure and risk may be minimal (e.g. an invoice management firm) compared to others where the risk exposure is significantly higher and requires more oversight (e.g. a private bank).

Does the firm stay up-to-date with regulatory changes and national risk assessments which could affect its approach to PEP customers and its risk management framework?

## Customer risk assessment

Does the customer risk assessment methodology take into account whether a customer is a PEP, family member or known close associate? Does it distinguish between domestic and non-domestic PEPs?

Are non-domestic PEPs or domestic PEPs with elevated risk factors considered higher risk customers and does the firm's documented methodology reflect this?

## Customer due diligence and enhanced due diligence

Does the firm have clearly documented due diligence procedures for both lower-risk PEPs (domestic PEPs) and higher-risk PEPs (non-domestic PEPs and domestic PEPs with elevated risk factors)?

Does the firm consistently apply the appropriate EDD measures to PEP customers?

Has the firm considered how it might identify "elevated risks" (e.g. relevant negative news, political position, expected use of the account, products and services obtained)?

Does the firm apply the appropriate EDD measures, including identifying and verifying source of wealth, business activities and source of funds? Has appropriate evidence been obtained from verifiable sources?

## Ongoing monitoring (including screening)

Does the firm have controls in place to determine when an existing customer becomes a PEP? Does this trigger the appropriate due diligence measures?

Does the firm require PEP customers to be approved by senior management both at onboarding or when becoming a PEP, and on a regular basis (e.g. during the annual PEP review)?

Are PEP customers re-reviewed on a frequent, e.g. annual, basis, reflecting their risk status?

Does the firm perform ongoing customer screening to monitor for any negative news on PEP customers?

Has the firm considered what fuzzy logic is appropriate for PEP screening? Is this tested on a regular basis?

## Transaction monitoring and suspicious activity reporting

Does the firm apply a risk-based approach to transaction monitoring, including enhanced monitoring for PEP customers?

Has the firm considered conducting PEP screening on counterparties to transactions? NB if adopted, such screening could follow a risk-based approach.

Do internal and external SAR guidance and templates ensure the PEP status of any involved parties is captured?

## **Awareness and training**

Does the firm make its employees aware of the heightened risks associated with PEP customers and regulatory expectations?

Does the team undergo appropriate training of the heightened risks associated with PEP customers?

Does the customer due diligence / onboarding team receive appropriate training on what risks to look out for at onboarding?

## **Assurance**

Does the firm track and monitor regulatory changes relating to PEPs?

Does the firm conduct quality control checks on PEP screening alerts?

Does the firm have an appropriate quality assurance process for the PEP review process?



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## About FINTRAIL

At FINTRAIL we are passionate about combating financial crime. Our unique team of experts is drawn from the industries we support and has deep hands-on experience in developing and deploying risk management controls from leadership roles with leading banks, FinTechs, and other financial institutions.

We have extensive experience to help you design customised transaction monitoring controls, including specific rule sets, scenarios and thresholds. We can assist with design and implementation, vendor selection / RFPs, testing, and remediation.

Our approach is tailored to the unique circumstances of each client, is regulatory and technology driven, and is focused on providing excellent customer outcomes. We offer our clients pragmatic solutions to the most complex challenges and our goal is to ensure our clients can thrive, free from the negative impacts of financial crime.

To find out more about how we can support your transaction monitoring controls, get in touch with our team at [contact@fintrail.com](mailto:contact@fintrail.com)



We are a consultancy with expertise in using financial and regulatory technology to combat financial crime.