

**WHITEPAPER**

18 OCTOBER, 2023

---

**Author**

Mohamed Daoud,  
Director, Industry Practice Lead – KYC

---

**Contact Us**

Americas  
+1.212.553.1658  
clientservices@moodys.com

Europe  
+44.20.7772.5454  
clientservices.emea@moodys.com

Asia (Excluding Japan)  
+85.2.2916.1121  
clientservices.asia@moodys.com

Japan  
+81.3.5408.4100  
clientservices.japan@moodys.com

---

## Politically Exposed Persons (PEPs): The banking and finance VIP challenge

Identifying Politically Exposed Persons (PEPs) has been part of anti-money laundering (AML) regulatory requirements for at least two decades and in the news for the past 18 months following Russia's invasion of Ukraine. More recently, PEPs made the headlines as prominent figures in British politics claimed their bank accounts had been denied because they were a PEP.

Over time, different international financial authorities have imposed large fines on banks for failing to properly comply with anti-money laundering (AML), counter-terrorist financing (CTF), counter-proliferation financing (CPF), and other anti-bribery and corruption (ABC) rules that include PEPs' cases.

### Defining PEPs

While there is no global definition, a PEP is defined by the Financial Action Task Force (FATF) as an individual who is or has been entrusted with a prominent public function or role in a government body or international organization.

### Why PEPs may pose risks

[AUSTRAC](#), most regulators, and Financial Intelligence Units define PEPs as typically exerting influence over government spending, including budgets, procurement processes, state development approvals, large country infrastructure projects, and country export/import trading policies. PEP examples include heads of state, government ministers or equivalent politicians, senior government executives, high-ranking judges, high-ranking military officers, central bank governors, and board members or executives of an international organization.

[The FATF guidance on PEPs](#) states that due to their function, status, and influence, it is recognized that PEPs are in positions that can potentially be abused for the purposes of committing money laundering and related predicate offences, including corruption and bribery, as well as conducting activities related to terrorist or proliferation financing. In addition, family members and close business associates can also become classified as a PEP by association.

A [World Bank report](#) refers to corruption crimes by PEPs as "grand corruption" – the proceeds of which are usually laundered through banks. According to the World Bank, an estimated \$1 trillion is paid in bribes annually. In [another report](#) by the United Nations Office on Drugs and Crime and the World Bank, it states corruption proceeds from developing countries range from \$20 billion to \$40 billion a year, contributing to a global problem of public assets theft, which in turn has an insidious impact on global development.

FATF's [five main types](#) of PEP:

1. Foreign
2. Domestic
3. International organization
4. Family members
5. Close associates

### PEPs by association

Families and close associates of PEPs are also subject to stricter AML/CTF monitoring and oversight because – among other things – their accounts could be used to receive and hold the proceeds of corruption or money laundering linked to a PEP. They may also exert a level of power and influence due to their relationship with the PEP. While discriminating against a PEP by association and denying them service would be ill-advised, it is a requirement to know identify them within a business network in addition to regularly monitoring their transactions and any changing risk factors.

### Managing PEP risks

For effectiveness, FATF's Recommendation 12 states that PEPs' transactions are subject to additional monitoring and oversight with a Risk-Based Approach (RBA). Depending on a bank's risk assessment policy, the intensity of monitoring may be increased if a PEP is from a high-risk jurisdiction. The World Bank consider also that both domestic and foreign PEPs hold the same risk. Most international banks and financial institutions already apply enhanced due diligence to both domestic and foreign PEPs.

To comply with the FATF recommendations and national regulations related to PEPs, banks and financial institutions must perform know your customer (KYC) activities, including enhanced due diligence (EDD) at onboarding. This process of EDD classifies a customer or supplier as having a prominent position in a local or foreign government, or an international organization (such as a sporting ruling body), which tags them as a PEP. This action is taken to ensure any associated risk is monitored regularly, along with banking transactions and financial behaviors and activities.

Anti-money laundering standards require banks, financial institutions, and designated non-financial businesses and professions (DNFBPs) to have a risk approach to identify whether customers are PEPs before establishing any new business relationship. The institutions usually comply with the requirement to identify PEPs by asking the necessary KYC questions as well as checking external PEP databases, such as Moody's Grid, and applying a RBA with several key indicators:

- » the risk associated with certain jurisdictions,
- » a public official's seniority,
- » or area of business.

To mitigate cases where an existing customer attains PEP status after onboarding, businesses should also have an ongoing process that includes ongoing checks – known as [perpetual KYC](#).

### PEPs and sanctions

The Russia/Ukraine war and subsequent international sanctions regimes imposed by the US, EU, UK, and other countries increased, by default, the PEP list of Russian oligarchs and automatically moved them from PEP status to sanctioned entities. Before the invasion of Ukraine, many were already on PEP lists, along with their relatives and close associates. It is important to highlight that individuals can be listed as a PEP, and if sanctioned they will appear on both sanctions lists and PEPs list.

### Name matching PEPs

The variation of name spelling and transliteration of scripts from one language to another can cause issues when name-matching PEPs during a KYC screening process – this is an issue for institutions conducting EDD. For example, the translation of Arabic script into Latin script can present particular challenges for compliance teams when name matching.

This issue can increase the number of false positives and false negatives a compliance team receives, i.e., when information about the wrong person is returned during a screening process. The advent of false positives and negatives can add to the burden on compliance teams who review true hits. The use of new, advanced filtering tools can help firms enhance their compliance processes, making sure screening is sensitive to those factors and can identify PEPs more accurately on an ongoing basis.

[Intelligent screening](#) can reduce the burden on compliance teams. AI can be used to deliver name-matching technology that both reduces false positives and automates accurate alerts.

### Best practices for PEPs

One of the main challenges related to PEP risks is that some jurisdictions don't follow international guidance and standards, so the definitions and identification of PEPs vary from one jurisdiction to another. This variation might be customized to specific political environments, or the definition kept vague due to a lack of governance and transparency.

As an example, countries could classify foreign PEPs as a high risk, and apply simple due diligence checks for local PEPs classified as medium or low risk, while other countries could classify PEPs the other way round with local PEPs viewed as higher risk and subject to EDD.

However, most countries adopt the FATF standards and conduct EDD for both foreign and domestic PEPs.

### Exposed people

Although not part of the regulations and the FATF recommendations, some financial institutions have created an additional category beyond PEPs for internal monitoring purposes: Exposed People (EP), who are not politicians or in government. The EP category includes famous people with power and influence, but who are not directly involved in political functions. EPs can refer to celebrities; dignitaries; famous athletes; actors; singers; or influencers. In some emerging countries, an EP could also be seen as having far more impact and political influence than a PEP.

In all cases, the standard practice is to manage PEPs with a dual approach:

- » A PEP list based on the local regulation to satisfy the local authorities.
- » Another separate list based on international standards and the FATF recommendations to satisfy international counterparties – especially the related correspondent banks.
- » An optional list of VIPs or celebrities classified as an EP – these are people with influence, but do not hold a prominent public function in a government body or international organization.

### Once a PEP

The other main challenge is how long is a PEP considered a PEP, for example, when a PEP has left office, are they still a PEP? There are no clear, set time frames defining how long a person identified as PEP remains a PEP, and the same is true for those defined as PEPs by association. Financial institutions and banks might accord a high-risk PEP their PEP status for life, while a low-risk PEP could be declassified quickly after leaving office. Different countries' regulators apply different rules; however, most financial crime specialists agree PEP status should remain for at least 12 to 18 months after they leave office.

As best practice, the recommendation is to use the FATF and [Wolfsberg Group guidance on PEPs](#). The Wolfsberg Group is a non-governmental association of twelve global banks that adopt several standards and issue guidance known as Wolfsberg Principles.

### How Moody's Analytics can help

AML/CTF regulations recommend banks and other institutions consider seeking additional risk intelligence information from independent, curated, and reliable sources of data, including sanctions, PEPs, and adverse media, such as those provided by Moody's Analytics. This is to create a profile of risk associated with customers and includes verifying if someone is a PEP or a PEP by association.

Moody's Analytics PEP database's inclusion criteria comprise extensive position ranking categories for government officials, military, judiciary, diplomate, political party, religious organizations, international organizations, and more, including four levels as a function for each ranking category. For example, a Diplomate category has four levels – Ambassador, Consulate, Attaché or Counselor. We also use a unique and comprehensive scoring mechanism built on industry best practices, which considers a PEP's relative seniority level and position risk, the country risk, corruption rating, and relevant adverse media risk categories.

In addition, and due to the potential weakness in AML, CTF, and ABC regulations in high-risk countries that lack transparency and who may be reluctant to list members of government as PEPs, Moody's Analytics provides a large adverse media and negative news screening dataset. This includes large amounts of structured data to search and detect additional, hidden PEPs with negative news associations potentially linked to criminal activity or increased risk factors. Our solution harnesses AI and machine learning technology to automate alert processing consistently and accurately, reducing false positives by as much as 70%.

Given the ever-growing number of PEPs and the varying risk profiles presented by PEPs, Moody's Analytics provides the most effective PEP RBA, enabling institutions to direct their oversight and resources to higher-risk PEPs in their business network. This means institutions can also take a lighter-touch approach to PEPs identified as a lower risk based on their behaviour, negative news profile, jurisdiction, and the nature of their business activities.

© 2023 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ISSUED BY MOODY'S CREDIT RATINGS AFFILIATES ARE THEIR CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND MATERIALS, PRODUCTS, SERVICES AND INFORMATION PUBLISHED BY MOODY'S (COLLECTIVELY, "PUBLICATIONS") MAY INCLUDE SUCH CURRENT OPINIONS. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT OR IMPAIRMENT. SEE APPLICABLE MOODY'S RATING SYMBOLS AND DEFINITIONS PUBLICATION FOR INFORMATION ON THE TYPES OF CONTRACTUAL FINANCIAL OBLIGATIONS ADDRESSED BY MOODY'S CREDIT RATINGS. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS, NON-CREDIT ASSESSMENTS ("ASSESSMENTS"), AND OTHER OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. AND/OR ITS AFFILIATES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS, ASSESSMENTS AND OTHER OPINIONS AND PUBLISHES ITS PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS, AND PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS OR PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT INTENDED FOR USE BY ANY PERSON AS A BENCHMARK AS THAT TERM IS DEFINED FOR REGULATORY PURPOSES AND MUST NOT BE USED IN ANY WAY THAT COULD RESULT IN THEM BEING CONSIDERED A BENCHMARK.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the credit rating process or in preparing its Publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY CREDIT RATING, ASSESSMENT, OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any credit rating, agreed to pay to Moody's Investors Service, Inc. for credit ratings opinions and services rendered by it fees ranging from \$1,000 to approximately \$5,000,000. MCO and Moody's Investors Service also maintain policies and procedures to address the independence of Moody's Investors Service credit ratings and credit rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold credit ratings from Moody's Investors Service, Inc. and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at [www.moody.com](http://www.moody.com) under the heading "Investor Relations — Corporate Governance — Charter Documents - Director and Shareholder Affiliation Policy."

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors.

Additional terms for Japan only: Moody's Japan K.K. ("MJKK") is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJJK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJJK or MSFJ (as applicable) have, prior to assignment of any credit rating, agreed to pay to MJJK or MSFJ (as applicable) for credit ratings opinions and services rendered by it fees ranging from JPY100,000 to approximately JPY550,000,000.

MJJK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.