

Update on domestic PEP guidance

Domestic politically exposed persons (PEPs) can now be considered inherently lower risk than non-domestic PEPs, following recent changes to money laundering regulations by the UK government.

What has changed?

In December 2023, the UK government announced [changes](#) to the Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 (MLRs) with regards to the treatment of PEPs entrusted with prominent public functions in the UK, known as domestic PEPs.

These changes came into force on 10 January 2024.

This update signals the government's position that regulated firms should take a more proportionate and risk-based approach to the treatment of domestic PEPs. This means that, under the MLRs, when dealing with domestic PEPs or a family member or known close associate of a domestic PEP, the starting point for regulated firms is to treat them as inherently lower risk than non-domestic PEPs.

The amendment states:

“(3A) For the purpose of the relevant person’s assessment under paragraph (3), where a customer or potential customer is a domestic PEP, or a family member or a known close associate of a domestic PEP -

(a) the starting point for the assessment is that the customer or potential customer presents a lower level of risk than a non-domestic PEP, and

(b) if no enhanced risk factors are present, the extent of enhanced customer due diligence measures to be applied in relation to that customer or potential customer is less than the extent to be applied in the case of a non-domestic PEP.”

What does this mean in practice?

Policies, Controls & Procedures (PCPs)

Firms should amend their PCPs to make it clear that domestic PEPs may be treated as inherently lower risk than non-domestic PEPs.

Whilst enhanced due diligence still applies, this may not need to be as extensive or as detailed as situations involving their non-domestic equivalents, unless there are specific factors that otherwise increase the level of risk.

Domestic PEPs may still pose significant risks depending on their PEP status. Practices should still assess risk on a case-by-case basis.

Client/matter level

It should be noted that current r.35 requirements still apply. These are:

- having senior management approval for establishing a business relationship with a PEP or an entity beneficially owned by a PEP
- taking adequate measures to establish the Source of Funds and Source of Wealth that are involved in the business relationship or occasional transaction
- conducting closer ongoing monitoring of the business relationship.

It is important to note that a lesser form of enhanced due diligence for domestic PEPs does not trigger a greater level of enhanced due diligence for non-domestic PEPs with no additional risk factors.

Legal Sector Affinity Group (LSAG) Guidance 6.19.3.2 already gives guidance on the questions practices should ask in relation to PEP status and the assessment of PEP risk at client/matter level. This includes considering which aspects of your enhanced due diligence protocol are appropriate for the PEP in question.

LSAG guidance also refers to current [PEP guidance](#) issued by the Financial Conduct Authority (FCA). Further information and practical steps to mitigate risk can be found S 2.26-2.36

As with other AML compliance issues, it is important that firms record steps and decision-making in relation to the enhanced due diligence undertaken on domestic PEPs, family members or known close associates.

The FCA is due to review and update its own guidance on this subject by June 2024. As a result, this note may be further updated or amended following any changes.