CILEx Regulation

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 amended the Money Laundering Regulations to introduce a lower-risk starting point for domestic PEPs, their family members and known close associates. This took effect 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."*

Who should be treated as a PEP in the UK?

- UK scoping clarifications to assist risk assessment.
- Do not treat non-executive board members of UK civil service departments as PEPs, unless they qualify via another role.
- Treat the Northern Ireland Assembly as a similar legislative body in the UK, alongside the Scottish Parliament and Senedd.
- When considering roles in international organisations, use the UK Government list of international organisations. International sporting federations are not covered.
- The FCA has made minor clarifications to "high-ranking officers in the armed forces" and has updated certain terms, for example "siblings". Use a case-by-case approach consistent with the MLRs.

When a PEP leaves office

- For an individual who was a PEP, apply the measures in Reg. 35(5) for at least 12 months after they cease to hold the public function, or longer if appropriate to address ML/TF risk. If a firm decides to continue beyond 12 months, it must document its rationale in line with Reg. 35(9)(b).
- Family members and known close associates of a PEP do not require continued application of Reg. 35(5) once the PEP has ceased to hold the function. Update your records promptly when status changes are identified.

When a PEP leaves office, continue enhanced measures for at least 12 months, or longer where appropriate, and de-scope family members and known close associates at that point. Document any decision to extend controls beyond 12 months under Reg. 35(9)(b).

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 (EDD) 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. In line with FG25/3, firms should calibrate EDD to the actual risk. For domestic PEPs, and in other clearly lower-risk scenarios, a lower level of EDD may be sufficient. Document your rationale, link it to the risk assessment, and maintain appropriate ongoing monitoring.

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

Please note: For UK-headquartered groups, ensure group-wide policies reflect the UK Regulations, including the lower-risk starting point for domestic PEPs. For foreign groups operating in the UK, UK business must comply with the UK Regulations and FG25/3 where applicable. The FCA will not interpret non-UK legislation, so UK-specific addenda may be needed.

Client/matter level

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

- Senior-management approval is required for establishing or continuing a business relationship with a PEP or an entity beneficially owned by a PEP. Firms may allocate sign-off to staff who have sufficient knowledge of the firm's financial crime risk and sufficient authority to take decisions affecting that risk. The MLRO does not need to sign each case, provided the MLRO retains oversight of the overall process. Firms should document who is authorised and provide targeted training. For lower-risk domestic PEPs, sign-off may be at a lower level of seniority.

  Senior management approval may be delegated to suitably senior and trained staff with appropriate knowledge and authority. The MLRO need not sign every PEP case but should retain oversight of the process. For lower risk domestic PEPs, signoff may be at a lower level of seniority.

- 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[1] 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.

On 7 July 2025, the FCA published FG25/3 and on 15 July 2025 issued a revised version. Firms should note the FCA's clarifications, including that non-executive board members of UK civil service departments should not be treated as PEPs, that the Northern Ireland Assembly is included within similar legislative bodies in the UK, and that international sporting federations are not "international organisations" for PEP purposes.

[1] For practical examples of good and poor practice, see the FCA's multi-firm review on the treatment of PEPs (July 2024) and consider those observations alongside LSAG guidance.