



MEMORANDUM No. M-2023-029

To : **All BSP-Supervised Financial Institutions (BSFIs)**

Subject : **Reminder on Appropriate Customer Due Diligence on Politically Exposed Persons**

Consistent with the requirements under Rule 19, Section 1 of the updated 2018 Implementing Rules and Regulations (IRRs) of Republic Act No. 9160, otherwise known as the Anti-Money Laundering Act of 2001 (AMLA), as amended, Sections 923 and 923-Q of the Manual of Regulations for Banks (MORB) and the Manual of Regulations for Non-Bank Financial Institutions (MORNBFI), all BSFIs are reminded to apply appropriate customer due diligence (CDD) measures and other related obligations on customers that are considered as PEPs.

Definition and Clarification on CDD Measures for PEPs

PEP¹ refers to an individual **who is or has been** entrusted with prominent public position in (a) **the Philippines with substantial authority over policy, operations or the use or allocation of government-owned resources**; (b) **a foreign state**, or (c) **an international organization**.

As part of CDD, covered persons shall establish and record the true and full identity of PEPs, as well as their immediate family members² and close relationships/associates³. BSFIs are reminded of the risk-based procedures for the varying categories of PEPs.

For domestic and international organization PEPs, onboarding procedures that shall be applied shall be similar to those applied to other customers, such as customer identification and verification. Unlike foreign PEPs, **domestic and international organization PEPs are not automatically considered as high risk**. The applicable and appropriate CDD shall be determined by the results of the BSFI's risk profiling of the PEP customers based on its adopted methodology. This methodology shall consider several criteria⁴, such as but not limited to the nature of the service or product to be availed of; the purpose of the account or transaction; the source of funds and source of wealth; the nature of the business and/or employment; existence of suspicious transaction indicators; and other relevant factors as the covered persons may deem reasonable or necessary in assessing the risk of a customer.

In cases **when there is a higher risk business relationship** for domestic and international organization PEPs, the BSFI shall adopt the following measures⁵:

- a. Obtain senior management approval before establishing or, for existing customers, continuing, such business relationships;
- b. Take reasonable measures to establish the source of wealth and the source of funds of customers and beneficial owners identified as PEPs; and
- c. Conduct enhanced ongoing monitoring on that relationship.

Meanwhile, foreign PEPs require the application of enhanced due diligence (EDD) measures equivalent to those posing higher risk. The decision to engage or maintain the business

¹ Section 1, Rule 2 of the 2018 IRR of the AMLA, as amended, and Section 904 of the MORB and Section 904-Q of the MORNBFI

² Individuals related to the PEP within the second degree of consanguinity or affinity

³ Persons who are widely and publicly known, socially or professionally, to maintain a particularly close relationship with the PEP, and include persons who are in a position to conduct substantial domestic and international financial transactions on behalf of the PEP.

⁴ Section 9.2, Rule 18, 2018 IRR

⁵ Section 1.2 Rule 19 2018 IRR

relationship with the foreign PEP customer should not be taken at the ordinary level of the hierarchy but at the level of senior management. This should further lead to more proactive steps, in particular, to increase the monitoring of the business relationship, in order to determine whether those transactions or activities appear unusual or suspicious⁶.

In implementing the CDD procedures for PEPs, BSFIs are reminded to implement customer-centric onboarding procedures to a) identify PEPs and implement appropriate risk-based measures on PEPs, recognizing that not all domestic PEPs pose higher risk; and b) in cases of customers assessed as posing higher risk relationship, adopt a reasonable turnaround time in the conduct of onboarding EDD procedures and approval process. BSFIs are, therefore, enjoined to receive the account opening applications of customers, including domestic PEPs, inform them of the applicable requirements and approval process, and provide feedback within the defined turnaround time.

Continuing Assessment and Updating of PEP Status

Another important aspect of CDD on PEPs is the continuing identification and assessment of a customer as a PEP. In this regard, BSFIs should be guided by the definition of PEPs in the regulations to identify and assess whether the prospective customer qualifies as a PEP, including the determination of past and present PEPs. BSFIs should **refrain from the wholesale concept of “Once a PEP, always a PEP”** as this is not consistent with the risk-based approach. BSFIs are advised to use risk-based assessment to determine whether there are any residual risks or significant influences posed by the customer or past PEP. Relevant factors can be considered in declassifying a former PEP, such as the position held and its susceptibility to corruption or misappropriation of state funds or assets, length of time in office and the likelihood of return to office in the future, the level of transparency about the source of wealth and origin of funds, in particular, those funds generated as a consequence of office held, and how politically connected they remain once they have left office⁷, among others.

To facilitate the identification of PEPs, BSFIs shall adopt its database on PEPs which shall be regularly updated. Consistent with the above definition of PEPs, it may enumerate the positions that are considered as PEPs or list the persons occupying such positions, or a combination of both methodologies. The adoption of a database shall be consistent with the BSFI's risk and context.

Communication Strategy

In dealing with their customers, BSFIs should adopt a clear and reasonable communication strategy to explain the account opening process and procedures to the customers and avoid discriminatory practices. This should include informing the customers of the applicable requirements and corresponding approval process within a reasonable time.

For information, guidance, and implementation.

CHUCHI G. FONACIER
Deputy Governor

10 October 2023

⁶ FATF Guidance of Politically Exposed Persons; <https://www.fatf-gafi.org/content/dam/fatf-gafi/guidance/Guidance-PEP-Rec12-22.pdf.coredownload.pdf>; accessed on 2 October 2023

⁷ Wolfsberg Group updates PEP Guidance <https://aml-cft.net/wolfsberg-group-updates-pep-guidance/> accessed on 02 October 2023.