



Compliance Hub - Question of the Week:

Q: When onboarding new customers, is the bank required to check/screen whether they qualify as Politically Exposed Persons (“PEPs”)?

A: Stop me if you’ve heard this before – but when it comes to BSA-related compliance, the rule of thumb is risk. Whether or not the bank screens for PEPs depends less on a hard-and-fast requirement and more on what the bank’s own CIP, CDD, and BSA/AML program dictates.

Notably, the BSA itself does not specifically mandate that a bank screen for or identify PEPs (and, interestingly enough, the statute/regulations don’t even explicitly define the term) - but rather, the regulatory agencies treat this as a matter of due diligence, recognizing that PEP relationships can present heightened money laundering risks given their historic association with corruption, bribery, and related financial crimes:

“The CDD rule also does not require a bank to screen for or otherwise determine whether a customer or beneficial owner of a legal entity customer may be considered a PEP. A bank may choose to determine whether a customer is a PEP at account opening if the bank determines the information is necessary for the development of a customer risk profile. Further, the bank may conduct periodic reviews with respect to PEPs, as part of or in addition to the required ongoing risk-based monitoring to maintain and update customer information.

Not all PEPs are high risk solely by virtue of their status. Rather, the risk depends on facts and circumstances specific to the customer relationship. For example, PEPs with a limited transaction volume, a low-dollar deposit account with the bank, known legitimate source(s) of funds, or access only to products or services that are subject to specific terms and payment schedules could reasonably be characterized as having lower customer risk profiles." Joint Statement on Bank Secrecy Act Due Diligence Requirements for Customers Who May Be Considered Politically Exposed Persons

Ultimately, whether or not to screen for PEPs is indeed a risk-based decision, but it is widely considered a best practice - and if a bank chooses to scale back or remove such screening, it likely should be prepared to defend that policy choice...just as if it were on the ballot.