

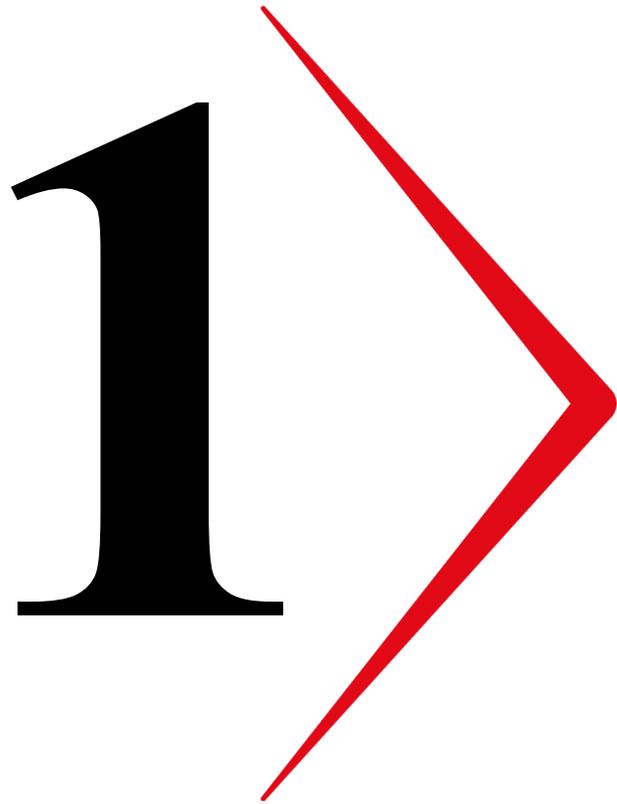


# *Know Your Client research skills*

ENHANCED DUE DILIGENCE & SOURCE OF WEALTH FOR PEPS

# *Webinar Agenda*

- When does enhanced due diligence apply?
- What is a PEP?
- Source of wealth v source of funds
- Establishing source of wealth
- What should concern you?
- Common misconceptions
- Support available



*Enhanced Due Diligence*

# *When is enhanced due diligence needed?*

- Firms must apply enhanced due diligence when dealing with:
  - Higher risk of MLTF
  - Occasional transaction or business relationship with client in high risk third country
  - Unusually large and/or complex transactions
  - Pattern of transactions with no apparent economic or legal purpose
  - Client has supplied false or stolen ID or information
  - ***Politically Exposed Persons – including certain family members and known close associates***

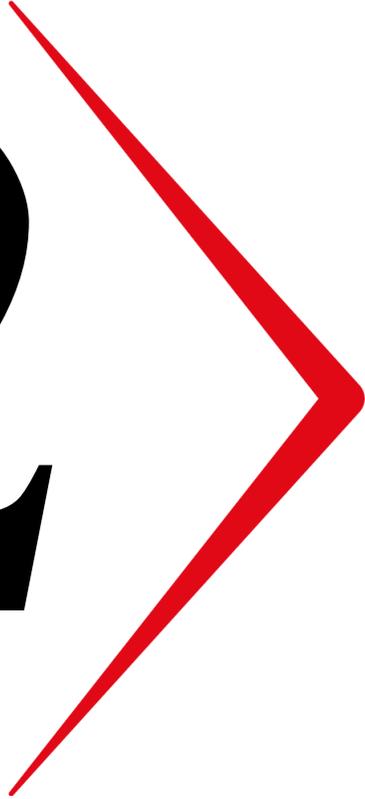
# *What is a PEP?*

- “Politically Exposed Person” or “PEP” means an individual who is entrusted with prominent public functions, other than as a middle-ranking or more junior official.
- The risk extends to certain family members and known close associates of a PEP.
- Examples of a PEP:
  - Ambassador
  - Daughter of an MP
  - Senior executive within a government owned commercial company

# *Enhanced due diligence for PEPs*

- EDD should include taking adequate measures to establish the source of wealth and source of funds.
- Nature and extent of EDD measures must vary depending on the levels of MLTF risk associated with a PEP.
- Risk assess the PEP for MLTF:
  - Corruption in jurisdiction
  - Strong state institutions & credible AML defences
  - Involvement in publicised scandals
  - Undeclared business interests
  - Acceptance of bribes to influence policies

2



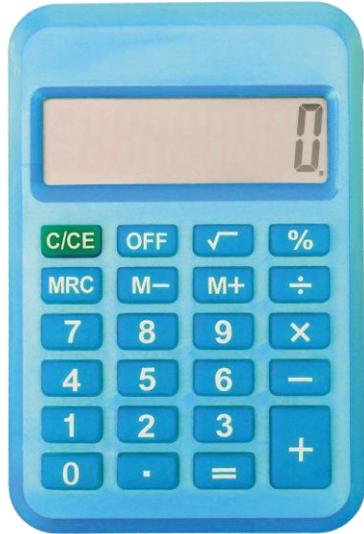
*Understanding the difference  
between source of wealth and  
source of funds*

# *What does source of wealth mean?*



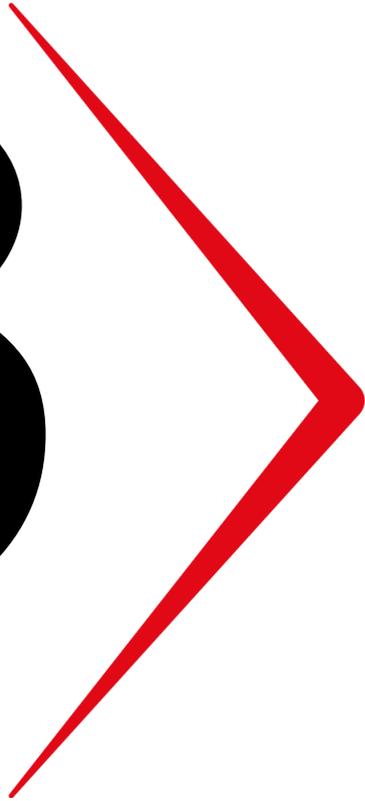
- Source of wealth refers to the activity or situation that has generated the individual's total wealth.
- Examples include:
  - Inheritance
  - Sale of an asset(s)
  - Long term investments
  - Business ownership
- The value of the individual's wealth is generally **static** in nature, not varying on a regular basis.

# *What are source of funds?*



- Source of funds refers to the origin of the particular funds or assets which are the subject of the business relationship.
- Verifying source of funds doesn't mean there are no MLTF concerns.
- Consider whether anything indicates that the funds may include the proceeds of crime:
  - Bribery and corruption
  - Embezzlement
  - Tax evasion

3



*Establishing source of wealth*

# *Obtaining source of wealth information*



- Firms can rely on publicly disclosed information.
- Reputable public sources e.g. Forbes, Bloomberg etc.
- Request information from client if insufficient information in public domain.
- Corroborate client information through public sources on a risk sensitive basis.

# *Establishing source of wealth*

- Extent of enquiries will vary according to the risks associated with the PEP:
  - Lower risk situations; firms may take less intrusive and less exhaustive steps
  - High risk situations; greater measures to clarify source of wealth are required
- Ask the client to explain source of wealth.
- Firms should focus on the sources that generated the major proportion of the wealth.
- It is not necessary to find evidence to corroborate every source or to verify the entire net worth.



*What should concern you?*

# *Potential red flags*

- Client seems uncomfortable providing information about source of wealth or source of funds.
- Information provided is inconsistent with other (publicly available) information, e.g. asset declarations, published official salaries.
- Information provided does not 'add up'.
- Client provides inaccurate or incomplete information.
- Ultimately, it is **your** decision whether a client relation with a PEP is continued or not.



*Common misconceptions*

# *Common misconceptions*

- A source of wealth assessment is not required as:
  - PEP holds a UK Investor Visa (tier 1)
  - PEP holds an account with a reputable bank
  - PEP is resident in the UK - A source of wealth assessment is only required for overseas PEPs
- You must verify source of wealth in all instances.
- Copies of bank statements are required in all instances.
- Source of wealth is the same as source of funds.



## *Support available:*

- Helpsheet on client due diligence
- Helpsheet on source of wealth
- CCAB AML Guidance
- ICAEW Technical Enquiry Services 01908 248250



[icaew.com](http://icaew.com)