



Our Reference :

20 June 2017

All reporting institutions which subjected to the requirements under:

- (i) The Anti-Money Laundering and Counter Financing of Terrorism (AML/CFT) Banking and Deposit-Taking Institutions (Sector 1);
- (ii) Anti-Money Laundering and Counter Financing of Terrorism (AML/CFT) – Insurance and Takaful (Sector 2);
- (iii) Anti-Money Laundering and Counter Financing of Terrorism (AML/CFT) – Money Services Business (Sector 3);
- (iv) Anti-Money Laundering and Counter Financing of Terrorism (AML/CFT) – Electronic Money and Non-Bank Affiliated Charge & Credit Card (Sector 4) ;
and
- (v) Anti-Money Laundering and Counter Financing of Terrorism (AML/CFT) – Designated Non-Financial Businesses and Professions (DNFBPs) & Other Non-Financial Sectors (Sector 5)

Technical Note on the Definition of Family Members and Close Associates of a Politically Exposed Person

This Technical Note is issued to provide clarification to reporting institutions (RIs) on the definition of family members and close associates of a politically exposed person (PEP) as specified under paragraph 14 of the respective policy documents. It is intended to be a guide to the RIs in effectively identifying family members and close associates of a PEP as the requirement to conduct enhanced customer due diligence on high risk PEPs is also applicable to their family members and close associates.

2. This technical note does not supersede or replace the legal requirement and does not constitute legal advice. It provides implementation guidance on the relevant provisions under the respective AML/CFT Policy Documents and should be read with those relevant provisions.

3. RIs may consider a wider scope than provided under the Technical Note based on their risk assessment as this Technical Note only provides guidance on the minimum considerations in identifying the family members and close associates of the PEP.

Please be guided accordingly.

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TECHNICAL NOTE ON FAMILY MEMBERS AND CLOSE ASSOCIATES OF A POLITICALLY EXPOSED PERSON (PEP)

The terms and expressions used in this technical note shall have the same meanings assigned to it in the Anti-Money Laundering, Anti-Terrorism Financing and Proceeds of Unlawful Activities Act 2001 (AMLA) and the respective AML/CFT Policy Documents, unless otherwise defined in this technical note.

Note: Where reference to requirements or guidance from the AML/CFT Banking and Deposit Taking Institutions – Sector 1 is quoted, the corresponding requirements or guidance in AML/CFT – Sectors 2, 3, 4 and 5 are also referred to as simplified in the table below.

AML/CFT Policy Documents: Politically Exposed Persons (PEP)

The requirements set out under the Paragraph 14 are applicable to family members or close associates of all types of PEPs.

| Policy Document | Sector 1 | Sector 2 | Sector 3 | Sector 4 | Sector 5 |
|-----------------|----------|----------|----------|----------|----------|
| Paragraph | 14.1.1 | 14.1.1 | 14.1.1 | 14.1.1 | 14.1.1 |

Definition of a Family Member

- 1.1 Family members are individuals who are related to a PEP either directly (consanguinity) or through marriage.
- 1.2 A family member of the PEP includes the PEP's:
 - (a) parents*;
 - (b) siblings*;
 - (c) spouse(s);
 - (d) child*; or
 - (e) spouse's parents*;

* *biological and non-biological relationship.*

Definition of a Close Associate

- 2.1 A close associate is any individual closely connected to a PEP, either socially or professionally.
- 2.2 For individuals who fall within the definition of a close associate of a PEP, reporting institutions must determine the extent to which these individuals are directly engaged or involved in the activity of the PEP on a best effort basis.
- 2.3 An individual who is closely connected to a PEP may include the PEP's:
 - (a) extended family members, such as relatives (biological and non-biological relationship);
 - (b) financially dependent individuals (i.e. persons salaried by the PEP such as drivers, bodyguards, secretaries);

- (c) business partners or associates;
- (d) prominent members of the same organisation as the PEP;
- (e) individuals working closely with the PEP (i.e. work colleagues); or
- (f) close friends.

| Area | Good Practice | Poor Practice |
|---|--|--|
| Definition of PEP (including family member and close associates) | A clearly articulated definition of a PEP (and any relevant sub-categories) which is well understood by relevant staff. | Informal, undocumented processes for identifying, classifying and declassifying customers as PEPs. |
| Identification of PEPs including family members and close associates | Clear and consistent process and procedures in identification of PEPs, including when additional verification is required and its reference sources. | |

Applicable CDD or Enhanced CDD Measures

AML/CFT Policy Documents: Risk Profiling

A risk profile must consider the following factors:

- (a) *customer risk (e.g. resident or non-resident, type of customers, occasional or one-off, legal person structure, types of PEP, types of occupation);*
- (b) *geographical location of business or country of origin of customers;*
- (c) *products, services, transactions or delivery channels (e.g. cash-based, face-to-face or non face-to-face, cross-border); and*
- (d) *any other information suggesting that the customer is of higher risk.*

| Policy Document | Sector 1 | Sector 2 | Sector 3 | Sector 4 | Sector 5 |
|-----------------|----------|----------|----------|----------|----------|
| Paragraph | 12.4.2 | 12.4.2 | 12.4.2 | 12.4.2 | 12.4.2 |

AML/CFT Policy Documents: Enhanced CDD

Reporting institutions are required to perform enhanced CDD where the ML/TF risks are assessed as higher risk. An enhanced CDD, shall include at least, the following:

- (a) *obtaining CDD information under Paragraph 13.4 (Note: Para 13.5 for Sector 2);*
- (b) *obtaining additional information on the customer and beneficial owner (e.g. volume of assets and other information from public database);*
- (c) *inquiring on the source of wealth or source of funds. In the case of PEPs, both sources must be obtained;*
- (d) *obtaining approval from the Senior Management of the reporting institutions before establishing (or continuing, for existing customer) such business relationship with the customer. In the case of PEPs, Senior Management refers to Senior Management at the head office.*

| Policy Document | Sector 1 | Sector 2 | Sector 3 | Sector 4 | Sector 5 |
|-----------------|----------|----------|----------|----------|----------|
| Paragraph | 13.5.1 | 13.7.1 | 13.5.1 | 13.5.1 | 13.5.1 |

- 3.1 In assessing the ML/TF risk level of customer or beneficial owner identified as family members or close associates of a domestic PEP or a person entrusted with prominent public function by an international organisation, reporting institutions may consider the following factors:
 - (a) the family members or close associates have business interests related to the PEP's public functions (possible conflict of interest);
 - (b) the social standing or official capacity of the family members or close associates are such that it can be controlled, directed or influenced by the PEP;
 - (c) country from which the family members or close associates originate or in country they reside; or
 - (d) the family members or close associates are known to be involved in businesses or activities that have a high probability of being abused as a vehicle for ML/TF by the PEP.

| Areas | Good Practice | Poor Practice |
|--|--|---|
| Risk assessment & Profiling | Considering the risk posed by each PEP, their family members and close associates on a case-by-case basis | Broad brush parameters for risk rating without assessing individual family members and close associates' profile on risk-sensitive basis. |
| | Using robust risk assessment parameters and controls appropriate to the level of risk assigned | Inappropriate, outdated or inadequate risk assessment parameters and controls |
| Due diligence | When CDD is required, ensuring appropriate due diligence has been carried out on all customers, even when they have been referred by somebody who is powerful or influential such as the PEPs or senior management of the institution. | Insufficient due diligence procedure on customer when they have been referred by somebody who is powerful, influential or a senior manager. |

Source of Information

AML/CFT Policy Documents: Foreign PEPs

Reporting institutions are required to put in place a risk management system to determine whether a customer or a beneficial owner is a foreign PEP.

| Policy Document | Sector 1 | Sector 2 | Sector 3 | Sector 4 | Sector 5 |
|------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Paragraph | 14.2.1 | 14.2.1 | 14.2.1 | 14.2.1 | 14.2.1 |

AML/CFT Policy Documents: Domestic PEPs or person entrusted with a prominent function by an international organisation

Reporting institutions are required to take reasonable measures to determine whether a customer or beneficial owner is a domestic PEP or a person entrusted with a prominent function by an international organization.

| Policy Document | Sector 1 | Sector 2 | Sector 3 | Sector 4 | Sector 5 |
|------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Paragraph | 14.3.1 | 14.3.1 | 14.3.1 | 14.3.1 | 14.3.1 |

- 4.1. For the purpose of identifying and deciding whether an individual is a family member or a close associate of a PEP, the reporting institution may refer to any information which is in its possession, or which is publicly available.
- 4.2. Reporting institutions may refer to any of the following sources in identifying a family member or a close associate of a PEP:
 - (a) in-house databases and information sharing within financial group;
 - (b) commercial databases;
 - (c) risk information / guidance shared by supervisory / regulatory authorities;
 - (d) internet and media searches; and/or
 - (e) customer's self-declaration.
- 4.3. The sources referred to above are not exhaustive and the reporting institutions are encouraged to develop their own internal references in identifying individuals who are family members or close associates of a PEP.

| Area | Good Practice | Poor Practice |
|-----------------------|--|---|
| Source of Information | Complement the information from commercial database with other sources, such as periodic / ad-hoc internet searches, local knowledge or customer declaration | Failure to conduct further independent verification commensurate with the risk of customer. |
| | Additional verification conducted by independent parties on identification / decision by operational staff (e.g. front line or branches) | |
| | Reference to official, verified or reliable website | Reference to unverified or unreliable website |



Tips: Official government agency / ministry websites provide wide-ranging information of senior government official and domestic politician, including their employment information, profile and biodata

Extent of Applicability

AML/CFT Policy Documents: Risk Profiling

The risk control and mitigation measures implemented by reporting institutions shall commensurate with the risk profile of a particular customer or type of customer.

| Policy Document | Sector 1 | Sector 2 | Sector 3 | Sector 4 | Sector 5 |
|-----------------|----------|----------|----------|----------|----------|
| Paragraph | 12.4.3 | 12.4.3 | 12.4.4 | 12.4.3 | 12.4.3 |

Upon the initial acceptance of the customer, reporting institutions are required to regularly review and update the customer's risk profile based on their level of ML/TF risks.

| Policy Document | Sector 1 | Sector 2 | Sector 3 | Sector 4 | Sector 5 |
|-----------------|----------|----------|----------|----------|----------|
| Paragraph | 12.4.4 | 12.4.4 | 12.4.5 | 12.4.4 | 12.4.4 |

- 5.1. A PEP who is no longer entrusted with a prominent public function could still pose risk to the reporting institutions including their family members and close associates.
- 5.2. Reporting institutions may consider the following factors in determining whether a family member or close associate of a PEP who no longer holds a prominent public function should be considered as high risk:

- (a) the level of informal influence that the PEP could still exercise, even though he no longer holds a prominent public function; and
- (b) whether the PEP's previous and current functions (though not in a public / official capacity) are linked by the fact that the PEP continues to deal with the same substantive matters.

| Area | Good Practice | Poor Practice |
|--|---|---|
| Risk assessment & Profiling | Considering the risk posed by former PEPs and domestic PEPs on a case-by-case basis | Broad brush parameters for risk rating without assessing individual family members and close associates' profile on risk-sensitive basis. |

Other Examples of Good Practice

1. Ensuring relationship managers and other relevant staff understand how to manage high risk customers (including PEPs) by training them on practical examples of risk and how to mitigate it.
2. Keeping training material comprehensive and up-to-date, and repeating training where necessary to ensure relevant staff are aware of changes to policy and emerging risks.