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The Money Laundering and Terrorist Financing (Amendment) Regulations 2023 – Domestic PEPs

Of particular interest to: All regulated firms

In brief

The Money Laundering and Terrorist Financing (Amendment) Regulations 2023 (SI 2023 No. 1371) was published by the HM Treasury 14th December 2023, and comes into force on 10th January 2024. This Statutory Instrument (SI) amends the Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 (“MLR 17”) to clarify the differences between domestic and non-domestic politically exposed persons (“PEPs”), and the expected treatment of domestic PEPs.

Summary

Regulation 35 of the MLRs 2017, covering **Enhanced customer due diligence: politically exposed persons** has been amended to clarify that banks and other regulated firms must treat domestic PEPs, family members or known close associates of a domestic PEP as inherently lower risk than non-domestic PEPs, where there are no enhanced risk factors present.

The purpose of this change is to ensure that banks and other regulated firms take a proportionate and risk-based approach to the treatment of domestic PEPs, in line with the Government’s broader approach to anti-money laundering and counter-terrorism financing (“AML/CTF”) controls.

As a result of concerns that firms may not be treating customers individually (being excluded from products or services through no fault of their own), as directed by both legislation and the FCA, the FCA has launched a review of how regulated firms treat domestic PEPs. The review will look into the firms’ arrangements for dealing with PEPs based in the UK. The FCA will also seek input from UK PEPs, their family members and known close associates to assess how firms are meeting the AML legislation and FCA guidance, in order to conduct proportionate and risk-based due diligence on their clients.

The FCA’s review of the treatment of domestic PEPs by financial services firms will consider how firms are:

- applying the definition of PEPs to individuals
- conducting proportionate risk assessments of UK PEPs, their family members and known close associates
- applying enhanced due diligence and ongoing monitoring proportionately and in line with risk

- deciding to reject or close accounts for PEPs, their family members and known close associates
- effectively communicating with their PEP customers
- keeping their PEP controls under review to ensure they remain appropriate

The published findings and report will be made by 29 June 2024, and the FCA have stated that prompt action would be taken if any significant deficiencies are identified in the arrangements of any firm assessed.

Useful Links

[The Money Laundering, Terrorist Financing and Transfer of Funds \(Information on the Payer\) Regulations 2017 \(legislation.gov.uk\)](#)

[The Money Laundering and Terrorist Financing \(Amendment\) Regulations 2023](#)

[FCA launches review of treatment of Politically Exposed Persons | FCA](#)

[Review of the treatment of domestic politically exposed persons \(PEPs\): terms of reference \(fca.org.uk\)](#)

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