

DATE: September 8, 2020
BULLETIN: 2020-KDCU-CUB-18
TO: Kansas Chartered Credit Unions
SUBJECT: Due Diligence Requirements for Politically Exposed Persons

DUE DILIGENCE REQUIREMENTS FOR POLITICALLY EXPOSED PERSONS

On August 21, 2020, a [Joint Statement](#) on Bank Secrecy Act Due Diligence Requirements for Customers Who May Be Considered Politically Exposed Persons was issued by the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the Financial Crimes Enforcement Network, the National Credit Union Administration and the Office of the Comptroller of the Currency (“the Agencies”).

Generally, the term “politically exposed person” (PEP) includes a current or former senior foreign political figure, their immediate family and close associates. Wait. Before you close this document and move on, answer this question: do you have an institution of higher learning in your geographic area or field of membership? It is not uncommon in today’s world for foreign citizens to attend a college or university in the United States. If this individual also happens to be a PEP, then the credit union must take reasonable steps to ensure not being involved in the hiding or moving of the proceeds of corruption.

As with any member, the credit union must comply with the requirements of the [Customer Identification Program](#), as well as suspicious activity reporting and beneficial ownership. This statement does not alter existing BSA/AML requirements or establish new supervisory expectations.

Credit unions must apply a risk-based approach in developing risk profiles of their members, including PEP’s, and are required to establish and maintain written procedures reasonably designed to identify and verify beneficial owners of legal entity members. There is no expectation for a credit union to have a unique procedure for a PEP member. It is a piece of the risk assessment which, of course, depends on the facts and circumstances specific to the member relationship. Not all PEP’s will be high risk solely because of their status. If a PEP is no longer in office, the level of influence may be reduced.

When developing the risk profile, credit unions must take in to account the member’s public office or position of trust, as well as any indication the PEP may misuse authority or influence for personal gain. Other factors to consider include services used, volume and nature of transactions, geographic areas associated with the member’s activity, the member’s official government responsibilities and access to government funds, and the overall nature of the credit union-member relationship.

The Financial Action Task Force (FATF) provides additional [guidance](#), including red flags, e.g., unwillingness to disclose source of funds, seeking to use a financial institution that does not normally have foreign or high value clients, money moving between countries, downplaying the importance of position and influence, etc. Small credit unions, with little or no exposure to foreign markets, who determine they are dealing with a PEP, should consider in detail the reasons for the relationship.

NOTE: In accordance with Governor Laura Kelly’s [Executive Orders](#) and the [Ad Astra Plan](#), KDCU Administrator Jerel Wright continues to review the feasibility of resuming the on-site examination program.

This is being done in coordination with the NCUA.