




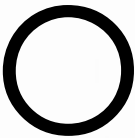
AN X-RAY INTO THE CENTRAL BANK OF NIGERIA'S GUIDANCE NOTES ON POLITICALLY EXPOSED PERSONS

July 2023

A wide-angle photograph of a cityscape, likely Lagos, Nigeria, serves as the background for the top half of the page. The image shows a mix of modern buildings, residential areas, and industrial structures under a clear blue sky with some light clouds.

"The guidance notes provide a roadmap for financial institutions to navigate these complexities and establish robust risk management procedures...."

AN X-RAY INTO THE CENTRAL BANK OF NIGERIA'S GUIDANCE NOTES ON POLITICALLY EXPOSED PERSONS

On 22nd June 2023, the Guidance Notes on Politically Exposed Persons (PEPs) was presented by the Central Bank of Nigeria (CBN), representing a significant advancement in the efforts to combat financial crimes and promote integrity within the Nigerian financial sector. This Guideline is designed to help banks and other financial institutions assess and mitigate the risks associated with business relationships involving PEPs. The guidance notes provide a roadmap for financial institutions to navigate these

complexities and establish robust risk management procedures. One of the key objectives of the guidance notes is to ensure financial institutions have comprehensive procedures in place to effectively prevent and detect financial crimes associated with PEPs.

Financial institutions (FIs) often face significant challenges in managing risks associated with PEPs, who are individuals who hold or have held prominent public positions and are considered high-risk due to their potential involvement in

corruption, money laundering, financing of terrorism, and proliferation financing. To address these challenges faced by FIs, the CBN has implemented stringent regulations to ensure FIs comply with Anti-Money Laundering (AML), Combating Financing of Terrorism (CFT), and Countering Financing of Proliferation of Weapons of Mass Destruction (CPF) measures, especially when dealing with PEPs.

The measures outlined by the CBN to mitigate the risks associated with PEPs under the Guidance notes on Politically exposed persons (PEP) are examined below.

IDENTIFICATION OF PEPs AND ENHANCED DUE DILIGENCE (EDD)

To effectively manage risks, FIs must adopt a risk-based approach to identify PEPs and apply appropriate EDD measures. PEPs pose a higher risk of financial crimes, including money laundering and terrorist financing, due to incidences of potential misuse of power and influence for personal gain. There is also the likelihood to utilise their families or close associates to conceal illicit funds and assets. Therefore, FIs are required to conduct thorough customer due diligence (CDD) procedures to identify PEPs and apply EDD measures to mitigate the higher AML/CFT/CPF risks they pose.

"FIs must adopt a risk-based approach to identify PEPs and apply appropriate EDD measures...."



RISK ASSESSMENT AND CLASSIFICATION

The extant corruption level in Nigeria makes domestic PEPs particularly vulnerable to financial risks, leading to the categorization of most domestic PEPs as high-risk by default. On the other hand, foreign PEPs and PEPs holding prominent functions in international organizations should be categorized based on the level of risk as assessed by financial institutions. FIs must consider various risk factors, including conflicts of interest, involvement in public procurement processes, systemic ML/TF risk in the country of political exposure, corruption levels, and impact on the implementation of international AML/CFT standards.

CUSTOMER IDENTIFICATION AND VERIFICATION PROCEDURES

FIs are required to conduct comprehensive customer due diligence procedures to establish a customer's PEP status and verify their identities. Self-declarations by customers regarding their PEP status can guide FIs in determining whether a customer falls

under the PEP category. Additionally, FIs may obtain information directly from customers through questionnaires and onboarding forms. Risk-based procedures should be applied to determine whether a customer is a PEP, and appropriate due diligence measures should be promptly implemented upon identification.

CUSTOMER DUE DILIGENCE MEASURES

FIs must apply customer due diligence measures proportionate to the risks posed by PEPs. When dealing with PEPs, their family members, or known close associates, FIs are required to implement EDD measures to mitigate higher ML/FT/PF risks.


However, FIs should not reject potential customers or terminate business relationships solely based on the PEP status. Instead, the focus should be on assessing the level of risk posed by the PEP and ensuring the implementation of adequate controls to prevent illicit activities.

SOURCES OF INFORMATION AND RISK MANAGEMENT SYSTEMS

FIs can rely on various sources of information to determine whether a customer is a PEP. These include periodic reviews of customer databases, internet and media searches, commercial databases, in-house databases, information sharing by competent authorities, and customer questionnaires /self-declarations.

periodic customer reviews, as well as implementing customer risk assessment policies and processes.

Managing risks associated with PEPs is a critical task for financial institutions, given the potential for corruption, money laundering, financing of terrorism, and proliferation financing. The Guidance Notes on PEPs provide a comprehensive framework for FIs to identify, assess, and mitigate risks associated with PEPs.



"Managing risks associated with PEPs is a critical task for financial institutions, given the potential for corruption, money laundering, financing of terrorism, and proliferation financing...."

Additionally, FIs should establish robust risk management systems to determine the PEP status of potential and existing customers. This includes conducting PEP screening during onboarding and

By adopting a risk-based approach, conducting thorough customer due diligence, implementing enhanced due diligence measures, and establishing robust risk management systems, FIs can

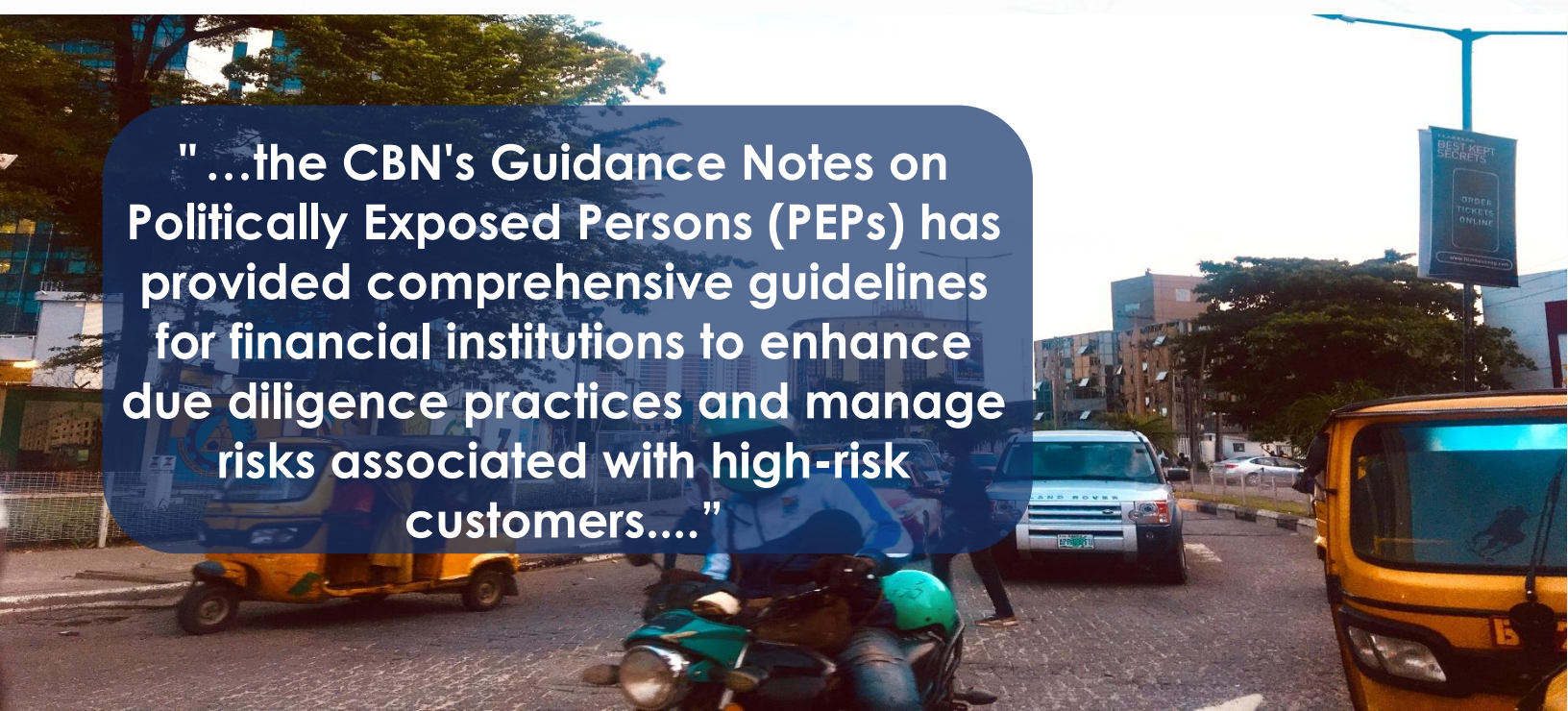
effectively combat financial crimes and uphold the integrity of the financial system. Compliance with these regulations not only safeguards the institutions themselves but also contributes to the overall stability and transparency of Nigeria's financial sector.

CONCLUSION

From the foregoing, it is evident that the CBN's Guidance Notes on Politically Exposed Persons (PEPs) has provided comprehensive guidelines for financial institutions to enhance due diligence practices and manage risks associated with high-risk customers. The Guidance Notes provide financial institutions with a roadmap to effectively

manage risks associated with PEPs through robust risk management procedures, enhanced due diligence measures, and comprehensive customer identification and verification processes.

It is paramount to state that promoting the effectiveness of these Guidelines in actualising its core objectives is significantly hinged on the compliance level. Strict compliance with the provisions of these regulations will not only safeguards the FIs, but also contribute to the overall stability and transparency of Nigeria's financial sector.



"...the CBN's Guidance Notes on Politically Exposed Persons (PEPs) has provided comprehensive guidelines for financial institutions to enhance due diligence practices and manage risks associated with high-risk customers...."

AUTHORS



Amala Umeike
Partner



Kolajo Onasoga
Associate

Stren & Blan Partners is an innovative and dynamic law firm with a compelling blend of experienced lawyers and energetic talents. Our lawyers are available to provide you with guidance and innovative solutions on complex business and legal issues across a variety of sectors.

This is a publication of Stren and Blan Partners and it is for general information only. It should not be construed as legal advice under any circumstances. For more information about the firm and its practice areas, please visit www.strenandblan.com. You can also contact us via contact@strenandblan.com or call +234 (0) 702 558 0053.