



GUIDELINE ON TREATMENT OF POLITICALLY EXPOSED PERSONS (PEPS)

Capital Market Authority (CMA)



1. Purpose and Scope

1. The purpose of this Guideline is to assist Capital Market Institutions (CMIs) in clearly understanding, implementing, and continuously strengthening their Anti-Money Laundering and Counter-Terrorist Financing obligations under to Article 8 the Anti-Money Laundering Law issued by Royal Decree No. (M.20) dated 05/02/1439H and its Implementing Regulation in relation to customers who qualify as Politically Exposed Persons. Given the inherently higher risk associated with PEP relationships due to the customer's position, influence, and potential access to public funds or decision-making authority, this Guideline seeks to promote a risk-based approach to the identification, assessment, and mitigation of risks arising from such relationships.
2. This Guideline sets out supervisory expectations regarding the key obligations that CMIs are required to consider and the control measures they are expected to apply when establishing and maintaining business relationships with PEPs. It provides guidance on the minimum regulatory standards that should be embedded within institutional policies, procedures, systems, and controls, while allowing sufficient flexibility for institutions to tailor their frameworks in line with their individual risk profiles, business models. The factors and measures described in this Guideline are not intended to be exhaustive, nor do they limit the scope of steps that CMIs may need to take to fully comply with regulatory obligations. Institutions remain responsible for assessing whether additional enhanced measures are necessary in light of the specific risks presented by individual PEP relationships.
3. This Guideline has been developed with due regard to international standards and best practices, including the Recommendations and interpretive guidance issued by the Financial Action Task Force, as well as supervisory and industry practices observed across leading jurisdictions. It reflects the expectation that CMIs adopt a robust risk-based approach that goes beyond formal compliance and is effectively embedded in operational practices, governance arrangements, and senior management oversight.
4. According to Article 24/6 of the Anti-Money Laundering Law and its Implementing Regulation "A financial institution or designated non-financial business and profession shall comply with any instructions, rules, guidelines or any other instruments issued by a supervisory authority". This Guideline applies to CMIs which are subject to AML/CFT supervision by CMA.

2. Definition of a PEP

5. The Anti-Money Laundering Law and its Implementing regulation defines a politically exposed person as "the person is or has become assignee with a prominent public function in the Kingdom or a foreign country; or with a senior management position in an international organization", As well as, the Financial Action Task Force defines a politically exposed person as an individual who is, or has been, entrusted with a prominent public function. This definition extends to both domestic and foreign public officials, as well as to senior officials of international organisations, and is further understood to encompass their immediate family members and close associates. The underlying rationale for this



designation is not rooted in any presumption of wrongdoing, but rather in the recognition of the heightened exposure of such individuals to potential abuse of entrusted power for private gain.

6. PEPs are inherently vulnerable to misuse for the purposes of corruption, bribery, embezzlement, abuse of influence, and related money laundering and terrorism financing offences. These vulnerabilities arise from the combination of decision-making authority, access to public funds, regulatory influence, and the ability to affect significant economic outcomes. As a result, transactions involving PEPs and control over legal entities linked to PEPs present structural exposure to proceeds-generating offences, particularly those linked to public-sector corruption and influence peddling.

7. Within the KSA legal and regulatory framework, FIs are obliged to have appropriate systems to determine whether a customer or beneficial owner is a politically exposed person within KSA or in another jurisdiction. This risk classification is further supported by KSA's National Risk Assessment, which identifies corruption as common predicate offence for money laundering.

8. As a consequence of this elevated risk profile, PEPs are subject to enhanced scrutiny by CMI, and specific enhanced Customer Due Diligence obligations are imposed under both the KSA Laws and Regulations and the FATF standards. These obligations require CMI to move beyond standard identification and verification measures and to apply an EDD measures risk assessment at the point of onboarding and throughout the lifetime of the business relationship. CMI is expected to apply senior management approval for the establishment or continuation of PEP relationships, conduct enhanced measures to establish the source of wealth and source of funds, and implement strengthened ongoing monitoring of transactions and business behaviour.

9. The PEP regime in KSA applies to all PEPs, both domestic and foreign¹. Pursuant to the AML/CFT Law, a PEP is defined as someone who holds or has held important public positions, in particular;

- i. Heads of state.
- ii. Members of governments.
- iii. Senior Politicians, senior government, military officials.
- iv. Members of supreme courts, constitutional courts or other high jurisdictions whose decisions are not subject to appeal, save in exceptional circumstances.
- v. Senior Executives of State Owned Corporations, and important party officials
- vi. Directors, deputy directors, and members of the board or equivalent function, of any international organization

Close Associates and Family Members of a PEP

10. The definition of PEP also includes, close associates and family members of a PEP. According to Article 8.2 of the Implementing regulations, obligations related to PEPs also apply in relation to their close associates and family members. All CMI are required to perform the same enhanced due diligence on close associates and family members such as:

- i. A family member who is related to a politically exposed person by blood
- ii. By Marriage up to the second degree

¹ Article 8 of the AML Law defines that CMI shall use appropriate systems to determine whether a customer or beneficial owner is or has become assignee with a prominent public function in the Kingdom or a foreign country; or with a senior management position in an international organization and if so, apply additional measures as prescribed by the Implementing Regulation;



11. Close associates are considered to include widely and publicly known close business colleagues or personal advisors or any persons who are in position to benefit significantly from close business associations with the PEP:
- i. natural persons identified as the beneficial owner of a legal entity or of a mutual fund, investment fund, trust or comparable legal arrangement under foreign law jointly with a politically exposed person, or as having any other close business relationship with such a person;
 - ii. natural persons who are the sole beneficial owners of a legal entity, mutual fund, investment fund, trust or comparable legal arrangement under foreign law known to have been set up for the benefit of a politically exposed person.
12. While family members and close associates may not themselves have any direct power or influence over government actions, they nevertheless present higher risks to CMI as a result of their relationship with a PEP. They may however be used in the following way:
- PEPs, knowing that their financial transactions will be subject to scrutiny, may use family members or associates to carry out illicit transactions or collect illicit funds, in an attempt to hide their involvement in a transaction and their illicit gains. In many countries where corruption is an issue, PEPs themselves may nominally possess few assets, while their family members and associates openly display their wealth.
 - Illicit actors seeking to persuade a PEP to take certain actions may seek to achieve this goal by paying off the people close to the PEP, the PEP's family members and close associates. These payments may be made with or without the knowledge or consent of the PEP.

3. Requirements related to PEPs

13. In practical terms, the elevated risk associated with PEP relationships requires CMI to translate the enhanced regulatory expectations into clearly defined operational controls across the full customer lifecycle. The identification of a customer or beneficial owner as a PEP must trigger the application of enhanced due diligence measures within onboarding systems and workflows, including senior management approval, understanding the source of wealth and source of funds and its verification, and the application of heightened screening and adverse media monitoring tools. These requirements must be embedded in both automated systems and manual escalation procedures to ensure consistency and auditability.
14. The risk-based methodology further requires that PEP exposure be integrated into customer risk scoring models and transaction monitoring scenarios. Transactions involving PEPs should be subject to ongoing monitoring. Ongoing monitoring must be continuous and more frequent than for standard-risk customers, with periodic reviews conducted at shorter intervals and supported by refreshed documentary evidence and updated risk assessments.
15. CMI are also expected to ensure that exit decision-making frameworks appropriately reflect PEP risk. Where the enhanced measures required cannot be effectively applied, or where the risk associated with a PEP relationship exceeds the institution's risk appetite, supervised entities should be in a position to decline the establishment of the relationship or to terminate an existing relationship in a controlled and documented manner.



16. These operational expectations require strong governance, effective compliance oversight, and clearly defined lines of accountability between front-line business units, compliance functions, and senior management.

17. The Implementing Regulation Article 8/5 defines that CMIs should first obtain senior management approval before establishing or continuing a business relationship with a foreign PEP, take reasonable measures to establish source of wealth and source of funds, and conduct enhanced ongoing monitoring of the business relationship. In case of domestic PEPs, CMIs are obliged to assess the risk of PEP customer and apply appropriate due diligence measures.

Table Summary of PEP Requirements

Obligation	Core Requirement for CMIs
PEP Identification & Screening	CMIs must have effective systems and procedures in place to identify whether a customer or beneficial owner is a PEP, including through reliable screening tools and ongoing adverse media monitoring.
Risk Classification	Customers and beneficial owners identified as foreign PEPs must be classified as high risk by default within the Customer Risk Assessment methodology. For domestic PEPs CMIs should assess the customer risk and apply appropriate due diligence measures.
Senior Management Approval	CMIs must obtain senior management approval before establishing or continuing a business relationship with a PEP.
Source of Wealth & Source of Funds	Enhanced measures must be applied to establish and verify the legitimacy of the PEP's source of wealth and source of funds.
Ongoing Monitoring	Business relationships and transactions involving PEPs must be subject to enhanced and continuous monitoring, including more frequent periodic reviews.
Transaction Monitoring Calibration	Transaction monitoring systems must apply stricter rules, lower thresholds, and corruption-related typologies for PEP-related activity.
Record Keeping & Audit Trail	All decisions, approvals, risk assessments, and verification steps related to PEPs must be properly documented and retained for supervisory review.
Declining / Exiting Relationships	Where risks cannot be effectively mitigated or exceed the institution's risk appetite, the relationship must be declined or exited in a controlled and documented manner.



4. Identification of a PEP

18. Individuals who have or have had a high political profile or hold, or have held political office have the potential to be vulnerable to corruption and therefore foreign PEPs are classified as high-risk individuals from an AML/CFT perspective. For domestic PEPs, CMI's should assess the risk of the customer and apply appropriate due diligence measures.

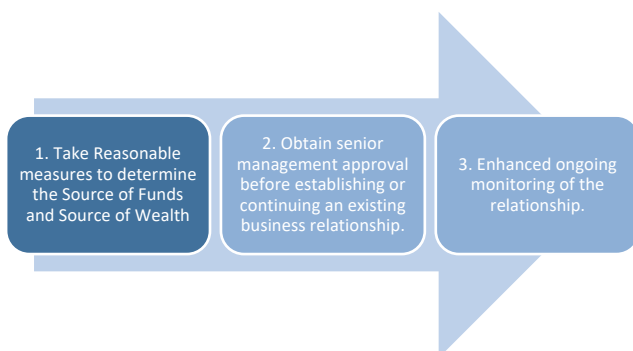
19. CMI's should note that the PEP could be a customer or the beneficial owner of a legal entity that is the customer. There is a risk that corrupt PEPs may use legal entities to obscure their identity by being the beneficial owner of the client in order to distance themselves from transactions, and to access the financial system undetected.

20. In line with the FATF standards and AML/ Law, CMI's are required to implement appropriate risk management systems to determine whether a customer, beneficial owner, beneficiary or controlling person is a PEP. In this respect, and in line with the nature and size of their business, CMI's should take the following (non-exhaustive) measures:

- a) Ensure the customer completes an identification questionnaire, which requires customers to identify themselves or their beneficial owners if they meet (or cease) the definition of a PEP. Entities should note however, that this self-declaration form is only intended to assist the entities in identifying PEPs, and it does not in itself fulfil the obligations on CMI's in relation to PEPs.
- b) Implement AML/CFT screening systems which screen customer and transaction information for matches with known PEPs. Depending on the nature, size and complexity of the financial institution, such screening systems should be automated.
- c) Conduct background checks as part of CDD procedures using tools such as manual internet search protocols; public or private databases; publicly accessible or subscription information services; commercially available background investigation services.

5. Enhanced Due Diligence Measures

21. The AML/CFT Law contains specific mandatory requirements for managing risks related to PEPs. If a customer has been identified as a foreign PEP or high risk domestic PEP based on CMI's customer Risk Assessment, the following Enhanced CDD measures must be applied by the FI:





22. As a fundamental first step of the Enhanced Due Diligence process, CMI's are required to take reasonable and proportionate measures to identify and verify both the source of funds and the source of wealth of their customers. It is essential that CMI's clearly distinguish between these two concepts, as the source of funds relates to the immediate origin of the specific funds involved in a transaction or business relationship, whereas the source of wealth concerns the broader origin of the customer's overall assets and net worth. A proper understanding of this distinction is critical to ensuring that both the transactional activity and the customer's financial profile can be assessed for legitimacy and consistency.

23. CMI's should further recognise that what constitutes "reasonable measures" is not uniform and must always be assessed in light of the specific circumstances of the customer, the nature of the business relationship, and the level of risk involved. In certain cases, reliable and credible information regarding the accumulation of a person's wealth may already be publicly accessible through reputable sources, which may reduce the need for extensive additional verification. In other cases, particularly where the business relationship involves complex structures, high-value transactions, or higher-risk products and services, the institution may be required to obtain additional information, supporting documentation, or third-party verification in order to achieve a sufficient level of assurance.

24. The extent of the information and documentation required must therefore be driven by the nature and purpose of the services provided, the expected level of activity on the account, and the underlying objective of the business relationship. CMI's are expected to exercise sound judgment in determining whether the information obtained provides a reasonable degree of confidence that the customer's funds and overall wealth are derived from legitimate sources, and that the proposed activity is commensurate with the customer's profile and declared financial circumstances.

Element	Definition / Description	Supervisory Expectations and Measures
Source of Funds (SoF)	The direct source of the funds that are used to initially fund the account, and of any funds that are transacted through the account during the course of the business relationship.	CMI's should take adequate measures to establish the source of funds used in the business relationship in order to satisfy themselves that the funds do not represent the proceeds of corruption or other criminal activity. The origin and means of transfer for the funds involved in transactions should be assessed, such as salary, proceeds of sale, corporate dividends, or other legitimate income sources.
Source of Wealth (SoW)	The source of the customer's overall wealth, representing the total net worth and how it was accumulated over time.	CMI's should take adequate measures to establish the source of wealth to ensure that the customer's overall assets have not been generated through corruption, influence peddling, or other criminal activity. This includes considering the activities that generated the customer's total net worth, such as ownership of a business, inheritance, investments, or long-term professional activity.



Risk-Based Application (PEPs)	The extent and depth of verification applied to SoW and SoF for politically exposed persons.	The measures taken to establish the source of wealth and source of funds for PEPs should be proportionate to the degree of high risk associated with the business relationship. Higher-risk PEP relationships require deeper and more extensive verification.
Assessment	Evaluation of whether the declared SoW and SoF are credible and consistent with the customer profile.	CMI should evaluate the legitimacy of both the source of funds and source of wealth. This may include making reasonable investigations into the individual's professional and financial background. Specifically, the customer's stated net worth should be assessed for consistency with declared sources of income, occupation, and observed financial behaviour.
Verification Sources	Independent sources used to confirm customer declarations on SoW and SoF.	Where customer declarations are obtained, useful sources for verification include publicly available property registers, land registers, asset disclosure registers, company registers, past transaction history (for existing customers), other sources on legal and beneficial ownership, as well as internet and social media checks.
Overall Objective	The regulatory and risk management purpose of SoW and SoF verification.	The objective is to provide the CMI with a reasonable degree of confidence that the customer has not generated wealth through corruption, influence peddling, or other criminal activity, and that the rationale for the business relationship is commensurate with what can reasonably be expected from the PEP given his or her particular circumstances.

25. The second key element of Enhanced Due Diligence is the approval to be obtained from senior management. It is essential that this approval process does not constitute a purely formal exercise, but rather operates as a meaningful and informed risk-governance control. CMIs must ensure that their internal processes are designed in a manner that enables senior management to obtain a clear, complete, and accurate understanding of the PEP-related risks before a decision is taken.

26. In this respect, the escalation framework should ensure that senior management is provided with comprehensive information on the nature and level of risk associated with the PEP relationship, including the customer's position and influence, the assessed source of funds and source of wealth, the products and services requested, the expected transaction profile, geographic exposure, and any adverse media or reputational considerations. The information presented for approval should also set out the scope of analysis conducted by the compliance function, the key risk factors identified, the mitigating controls applied, and the overall conclusions and recommendations reached.

27. Senior management approval should therefore reflect an informed and accountable decision-making process, whereby responsibility for accepting or rejecting the PEP relationship is taken at the appropriate level of authority, with full awareness of the potential impact on the institution's money laundering and terrorism financing risk profile.



Summary of the Requirements Related to the Senior Management Approval

Onboarding of a New PEP Customer	Senior management must be notified and formal approval must be obtained before establishing a business relationship with any new customer identified as a PEP.
Existing Customer Newly Identified as a PEP	Where an existing customer becomes a PEP or is newly identified as a foreign PEP or domestic high risk PEP relationship, the relationship must be escalated to senior management and approved without delay.
Identification of a Material or Unusual Transaction Involving a PEP	Where a transaction involving a PEP appears unusual or does not follow an established pattern, the matter could be escalated to senior management for review and approval.
Escalation and Reporting Framework	CMI's must maintain documented policies and procedures clearly defining how PEP relationships are reported and escalated to senior management.
Approval Timelines	Institutions must define clear timelines for obtaining senior management sign-off for PEP relationships and PEP-related events.
Level of Seniority for Approval	Institutions must define the minimum level of seniority required to approve PEP relationships, proportionate to the level of ML/TF risk.

28. The third key element of Enhanced Due Diligence is ongoing monitoring, which represents the continuous and dynamic assessment of PEP-related risk throughout the lifecycle of the business relationship. CMI's are required to ensure that Customer Due Diligence information for PEPs is kept up to date and that transactional activity is subject to enhanced and continuous monitoring through their transaction monitoring frameworks.

29. The periodic update of CDD information must include, at a minimum, the review and refresh of identification data, beneficial ownership information, source of wealth and source of funds, as well as the systematic screening of the customer for adverse media. The identification of negative or potentially damaging information must be promptly assessed to determine its impact on the customer's risk classification and on the appropriateness of continuing the business relationship.

30. In parallel, transaction monitoring systems must be calibrated to ensure that transactions involving PEPs are subject to enhanced scrutiny. High-risk, unusual, or non-standard transactions must be reviewed in a timely manner and assessed for consistency with the customer's known profile, declared source of wealth, and expected activity. The outcomes of these reviews must directly inform the institution's risk assessment of the customer and, where necessary, trigger decisive risk-mitigation actions. Such actions may include the filing of a suspicious transaction report, the imposition of additional controls or restrictions, the escalation of the relationship for senior management review, or the controlled exit of the relationship where the risks are no longer acceptable or cannot be effectively mitigated.



Ongoing Monitoring Measure	FI's Obligations
Regular Review of PEP Information	CMI's must regularly review all information held on PEP customers to ensure that any new or emerging information that may affect the risk assessment is identified in a timely manner.
Ongoing Monitoring Systems	In line with the nature, scale, and complexity of the institution, appropriate electronic transaction monitoring systems must be implemented. Less sophisticated entities must apply robust manual monitoring procedures.
Frequency of Review	The frequency of ongoing monitoring and transaction reviews must be determined on a risk basis and be commensurate with the higher risk associated with each individual PEP relationship.
Enhanced File Review	PEP customer files must be subject to more frequent review and updating, including manual review of transactions where necessary.
Risk-Based Transaction Monitoring Rules	Specific risk-based rules could be applied to PEP transactions, including threshold-based rules where transactions above predefined values, volumes, or aggregate amounts to be subject to enhanced examination.
Pre-Approval of Large Transactions	CMI's should, where appropriate, require prior approval from the compliance function for higher value transactions.
Identification of Unusual Activity	CMI's must actively identify unusual transactions involving PEPs and assess whether such activity is inconsistent with the customer's profile, declared source of wealth, or expected transactional behaviour.
Dynamic Risk Reassessment	Information obtained through ongoing monitoring must be used to reassess the PEP's risk profile on a continuous basis and to determine whether enhanced measures, restrictions, or exit decisions are required.
Escalation of Material Findings	Material findings arising from PEP monitoring must be escalated to senior management and, where applicable, to the SAFIU through STR reporting.
Auditability and Record Keeping	All monitoring activity, reviews, alerts, investigations, and outcomes relating to PEPs must be fully documented and retained for supervisory inspection.

6. PEP Screening

Classification of a customer as a PEP should take place at the customer onboarding stage and prior to the commencement of the business relationship. Under Article 7 of the AML Law, stipulates that FIs and DNFBPs shall: 1- Apply due diligence measures to their customers and the Implementing Regulation shall set forth the instances in which such measures shall be taken and the types of measures to be taken. 2- Determine the extent of due diligence measures based on the risks relation to a customer or business relationship. Where a higher risk of money laundering was identified, they shall apply enhanced due diligence measures.



31. CMI's are required to have effective risk management systems in place to determine whether a customer or beneficial owner is a PEP.

32. In practice, CMI's should conduct onboarding screening and ongoing screening of all customers. Such screening may include:

- A form to be completed by the customer that inquires as to whether the customer is a PEP. (Self-declaration form). CMI's should not rely solely on the response of the customer, rather carry out additional due diligence such as questions/checks relating to the customer's employment and job title, source of funds and source of wealth and searches/checks on of public or private databases.
- Internet, Media and open-source information searches
- Commercial databases
- Information sharing within group

33. Some PEPs may wish to conceal their status from CMI's and the general public to avoid undergoing enhanced scrutiny. In such cases, CMI's should be aware that searches of public records or private databases may not reveal their status or the connection between the customer and a PEP. In this respect, CMI's should be alert to any aspects of a customer profile that are inconsistent or do not have a clear explanation. These 'red flags' may be connected to a variety of illicit or questionable activity, including concealed PEP status.

34. When considering whether to approve a PEP relationship, CMI's should take into consideration:

- The level of ML/TF risk that the CMI would be exposed to upon entering the relationship
- The resources which would be required in order to mitigate the risk effectively.

35. CMI's should note that new and existing customers may not initially meet the definition of a PEP, but may subsequently become one during the course of a business relationship. On this basis, supervised entities should ensure that customer information is up to date and also undertake regular and on-going screening of their customer base to ensure that they have identified all PEPs.

36. When considering whether to continue a business relationship with a PEP, CMI's should ensure that

- The matter is discussed and approved at senior management level
- The corresponding ML/TF risks are acknowledged
- The rationale for the decision is documented

7. Time limits of PEP status

37. A customer who no longer holds a prominent public function should be based upon an assessment of risk by the CMI. While supervised entities can set time frames to review PEP status, a risk-based decision should be made as to when sufficient time has passed for a customer to no longer be classified as a PEP. Possible risk factors which the CMI might consider when making this decision are as follows;

- The level of (informal) influence that the individual could still exercise;
- The seniority of the position that the individual held as a PEP;



- The corruption potential of the customer's previous role. Where there was greater opportunity for illicit gain, it is more likely that the customer's source of funds will continue to be corrupt proceeds for some time after the customer leaves office.
- Whether the individual's previous and current function are linked in any way (e.g., formally by appointment of the PEPs successor, or informally by the fact that the PEP continues to deal with the same substantive matters).
- The customer's relationship to the PEP. For example, a customer who was formerly the close associate of a PEP, but who severed the business relationship some time ago, may present reduced corruption risk.

8. Training of Employees

38. Well trained employees who are alert to ML/TF risks is a critically important control for CMI in the detection and prevention of ML and TF. In line with the nature, scale and complexity of the CMI, employee training programmes should be implemented by the entity. These training programmes should address effective ways of determining whether customers are PEP and to understand, assess and handle the potential risks associated with PEPs. To ensure effectiveness, such training programmes should be subject to regular review and updating.

9. policies and procedures

39. Internal Policies and Procedures should be implemented by all CMI which include the following:
- How PEP relationships will be identified by the CMI
 - Procedure to be followed when a customer is identified as a PEP at onboarding
 - Procedure to be followed when a customer becomes a PEP during the business relationship
 - Nature and extent of EDD measures to be taken



Thank You