

# **Sanction Screening, PEP Flags, and Enhanced Due Diligence**

A Legal and Practical Guide for Offshore and International Financial Structures

## Executive Summary

In the post-9/11 financial regulatory world—tightened further by FATF guidelines, EU AML Directives, and U.S. OFAC standards—sanction screening, politically exposed person (PEP) vetting, and Enhanced Due Diligence (EDD) have become standard components of every financial institution's onboarding and monitoring process. Offshore companies, international structures, and HNWIs with global ties are disproportionately impacted due to the complexity of their affairs.

This briefing details how these mechanisms function, what gets flagged, and how HPT Group helps clients remain fully compliant while maintaining legitimate financial access.

## I. Sanction Screening: The First Line of AML Defence

### What It Is:

Sanction screening is the automated and manual process of checking whether an individual, company, vessel, or jurisdiction is listed on a sanctions list published by governments and international bodies.

Common Lists Screened:

- OFAC (U.S. Treasury)
- EU Consolidated Sanctions List
- UK HM Treasury Sanctions
- UN Security Council Lists
- FATF Non-Cooperative Jurisdictions
- Country-specific blacklists (e.g., UAE, Singapore, etc.)

### When It Occurs:

- At onboarding of clients or counterparties
- During transactions (especially international wire transfers)
- On a periodic or real-time basis as part of transaction monitoring

### Automatic Rejections:

- You or your entity appear on any sanction list
- You are from or have connections to a comprehensively sanctioned jurisdiction (e.g., Iran, North Korea, Syria)

## II. Politically Exposed Persons (PEPs): Risk by Association

### Definition:

A PEP is an individual who holds or has held a prominent public position, such as:

- Heads of State
- Government ministers

- Senior executives of SOEs (state-owned enterprises)
- Members of parliament or judiciary
- High-ranking military officials
- Close relatives or associates of the above

#### **Why It Matters:**

PEPs are considered inherently high-risk due to potential exposure to bribery, embezzlement, or state-influenced transactions.

#### **Implications for Offshore Companies:**

- A PEP as UBO/director/shareholder triggers mandatory Enhanced Due Diligence
- Banks may reject or limit services based solely on PEP designation
- Even former PEPs (within 12–24 months) are considered high-risk

### **III. Enhanced Due Diligence (EDD): The Deeper Drilldown**

When standard Know Your Customer (KYC) checks are insufficient—due to risk factors such as PEP status, offshore structuring, crypto involvement, or high transaction volume—banks are required to perform EDD.

#### **EDD Triggers:**

- Involvement of an offshore structure
- Unclear source of wealth
- Use of jurisdictions considered high-risk
- Crypto or digital assets exposure
- Shell companies with no visible economic activity
- Association with sanctioned persons, PEPs, or vulnerable industries

#### **EDD Requirements May Include:**

- Verified and notarized identity and address documents
- CVs and business background reports
- Bank statements or tax returns verifying source of funds
- Contracts or invoices showing commercial legitimacy
- Corporate structure charts and shareholder declarations
- On-site verification or video conference verification
- Independent compliance review and reporting

### **IV. How HPT Helps You Navigate These Risks**

HPT Group anticipates and resolves these issues before they arise. Through our internal compliance desk and partner banks and EMLs, we ensure:

- Sanction screening is conducted pre-submission using industry databases
- UBO disclosures are proactively positioned with supporting documentation
- PEP declarations are mitigated with legal affidavits and supporting context
- Source of funds and wealth is evidenced through structured, vetted documentation
- EDD documentation packages are custom-built to each bank's risk appetite

Our experience handling complex UBO structures, crypto-linked portfolios, and emerging-market clients gives HPT a unique advantage in securing compliant onboarding in the most risk-sensitive institutions.

## Conclusion

In today's regulatory climate, banks are no longer flexible when it comes to compliance shortcuts. Failing a PEP check or being associated with a sanctioned jurisdiction is not just an obstacle—it can mean total exclusion from the financial system.

**HPT Group enables clients to structure, disclose, and manage their affairs with precision—ensuring that legitimate wealth and international structures do not get swept into the same category as illicit activity.**