

WHO IS THE FATF AND WHAT IS GREY LISTING?

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The Financial Action Task Force (FATF) is an intergovernmental organisation founded in 1989. Its mandate was initially to develop policies to combat money laundering. After the September 11 terror attacks, the FATF's mandate was expanded to include terrorism financing.

The FATF maintains two lists: namely, a black and a grey list. Countries on the blacklist face sanctions by financial institutions on the basis that they are considered havens for money laundering and terrorism financing. Currently only Iran and North Korea are on the blacklist.

Countries are typically put on the grey list if serious deficiencies are found in their anti-money laundering and terrorism financing policies and systems.

Who is on the grey list?

There are currently 23 countries on the FATF's grey list. This includes countries such as Albania, Burkina Faso, Haiti, Myanmar, Syria, South Sudan, Türkiye, Uganda and Yemen.

Why is South Africa at risk of being placed on the FATF's grey list?

The FATF evaluated South Africa in October 2021 and found several deficiencies in the country's policies and efforts in combating money laundering and terrorism financing. Of the 40 technical compliance rating categories the FATF considers, South Africa was found to be non-compliant in 5, partially compliant in 15, largely compliant in 17 and only fully compliant in 3 categories.

The FATF cited South Africa's poor track record in investigating and convicting money laundering and terrorist financing crimes as well as the increased levels of financial crimes since the last evaluation was done in 2009. Specific reference was also made to the extent to which corruption and State Capture has proliferated in government institutions in the recent past.

Progress made thus far to prevent grey listing

Although significant progress has been made in terms of addressing the deficiencies pointed out by the FATF, much of this has been on the legislative side.

Cabinet has in recent weeks urgently approved the submission of a numbers of bills aimed at amending an omnibus of legislation. The amendments will be focused on:

- The Financial Intelligence Centre Act;
- The Non-profit Organisations Act;
- The Trust Property Act;
- The Companies Act;
- The Financial Sector Regulations Act; and
- The protection of Constitutional Democracy Against Terrorist and Related Activities Act.

Broadly speaking, these amendments are to ensure that South Africa meets international anti-money laundering standards. They are further aimed at empowering accountable institutions such as the Financial Intelligence Centre and other law enforcement agencies in their efforts to combat money laundering and the financing of terrorism.

What's next?

The FATF is due to review South Africa in October this year to gauge if enough progress has been made to combat money laundering and terrorism financing, and to assess whether South Africa has a credible plan to deal with areas of concern.

The FATF will then have a plenary meeting from 12 to 17 February 2023 where it will be decided whether or not to add South Africa to the grey list.

Much of the concern raised by the FATF in their October 2021 evaluation was centred around a lack of proper enforcement by law enforcement agencies in mitigating money laundering and terrorist financing.

Our view is that, although the legislative changes are a positive step, a turnaround from a law enforcement implementation perspective will take some time. As a result, we see it as probable that South Africa will be added to the grey list.

Potential market implications

From a market and economic impact perspective it is hard to take a strong view, given the lack of historic precedent for the grey listing of an emerging market country like South Africa, that is characterised by relatively sophisticated, deep and liquid financial markets. A recent IMF study estimates potential capital outflows of 7.6% of GDP based on the historic incidence of grey-listed countries (with a confidence interval of 4.5% to 10.5%). Having said that, the study also indicates that these flows tend to reverse relatively quickly after the actual grey-listing event.

All considered, we are monitoring this closely and have incorporated the probable grey listing into our investment view and strategy.

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