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Money laundering is a global concern and multiple countries have adopted the rules as set by the Financial Action Task Force.

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GLOBAL GREY LIST THREATENS SA INVESTORS

By Yolande Butchart, Foreign Exchange Consultant, Brent Wealth Mauritius

South Africa's much-vaunted financial systems face an existential threat that could further derail the country's economy. A global anti-money laundering body has placed the country on notice that unless certain changes are made, we would be lumped with pariah states like Pakistan, Myanmar, South Sudan and Syria.

The danger to the economy lies in further loss of credibility as an investment destination, which is already hampered by the junk investment status conferred by the major ratings agencies.

The bad news for South African citizens is that we won't escape being tarnished by the country being placed on the grey list. So, not only will we be fighting worsening economic conditions, but efforts to diversify risk by investing offshore will become ever more onerous.

This latest threat comes from the global anti-money laundering body, Financial Action Task Force (FATF), which has flagged deficiencies in South Africa's financial controls. The FATF announced last year that the country would be placed on the grey list of financially dubious states unless local authorities revised frameworks meant to curb money laundering and the financing of terrorism.

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WHAT IS THE FATF GREY LIST?

The anti-money laundering body's grey-list names countries that are under increased scrutiny until they have tightened up their systems and policies. After being warned in 2021 of these deficiencies, South Africa has been given until October 2022 to at least demonstrate how it intends to remedy matters.

SHOULD THESE MEASURES NOT ADDRESS THE FATF'S CONCERNS, WE WILL BE GREY-LISTED BY FEB 2023.

And even though National Treasury has expressed a willingness to make the needed changes, the department's acting director-general, Ismail Momoniat, said recently that there's a good chance we could miss the October deadline.

This possibility stems from Parliament's standing committee on finance insisting on a public participation process around the proposed changes. Given that lawmakers have gone into recess until mid-August, National Treasury is fearful that the FATF's deadline will be missed.

Should that happen, South Africa could find itself an outsider in the global financial framework, with increased scrutiny and more onerous financing terms. Global investors are also less likely to put their money into an economy with dubious financial controls.

This is a fate that Mauritius suffered when it was placed on the FATF grey list in February 2020, from which it exited nearly two years later. In the case of the island nation, the government intervened, and all financial institutions, casinos, jewellers and estate agents had to adopt stricter controls.

WHAT THIS MEANS FOR SOUTH AFRICANS

The increased scrutiny that follows being grey-listed means that every counterpart across the world will have to apply higher levels of due diligence to South African businesses and individuals with offshore interests.

International banks will also be required to add an extra layer of bureaucracy when dealing with South African clients, while international funders like the World Bank and EU will apply additional restrictions to support for the country. FOR CONSUMERS AND INVESTORS, WE MAY BE DENIED ACCESS TO PRODUCTS OR MARKETS THAT REFUSE TO DEAL WITH COUNTRIES ON THE FATF GREY LIST.

Restrictions don't mean exclusion from international markets and banking systems, but it does add layers of complexity, bureaucracy and inconvenience. You will still be able to invest offshore and open bank accounts, but this will come with enhanced due diligence (EDD) that is more vigorous than the usual KYC (know your client) checks.

At a macroeconomic level, our status with the FATF might also place a damper on the country's credit ratings, which will add costs to common transactions because of the added admin and due diligence requirements. For businesses, these extra checks could also demand hiring or contracting needed skills to ensure compliance.

WHAT TO DO?

The unfortunate reality is that the process to remedy policies and procedures lies with National Treasury and government, so there is little that individuals can do.

However, it might be an opportune moment to initiate international investments and financial matters prior to the February 2023 deadline to circumvent delays and administrative headaches. This won't avoid future scrutiny of facilities that you open pre-grey-listing, but it would remove some of the initial hassle factors.

This could come in the form of being subjected to due diligence checks by financial institutions as often as twice yearly, depending on your risk profile. And if you have international business interests or structures like trusts, you can also expect to have to undergo more regular checks on compliance with international practices.

While it could take up to three years for South Africa to complete all the required changes, the February 2023 grey-listing can be avoided if the country demonstrates that it has a credible action plan and that meaningful steps have been taken in this direction by the February deadline.

For now, our fate is in the hands of politicians and bureaucrats who don't appear to be aligned. Certainly not around the urgency of this matter. As an individual, I would suggest we assume that we'll be placed on the grey list and ready ourselves for administrative delays and disruptions.

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