A possible greylisting for South Africa if its anti-money laundering and terrorist financing shortcomings are not addressed

By Veronica Hardenberg, issued by Milpark Education

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The Paris-based Financial Action Task Force (FATF) gave South Africa 18 months to address challenges in its ability to prevent financial crimes outlined in an evaluation report in October 2021 (BusinessDay, 2022). The one-year deadline for South Africa ends in October 2022, at which point the country must be able to show that it has made progress in addressing its anti-money laundering and terrorist financing shortcomings. If the country fails to do so, it will be added to the greylist when the FATF holds its follow-up review meeting in February 2023 (BusinessDay, 2022).

The FATF, an international organisation, monitors compliance and supervision of regulations in its fight against money laundering and terrorist financing. International standards are set with the objective of preventing these illegal activities and the harm they cause to the public (FATF, 2022). The FATF implements policies that bring about legislative and regulatory reform (FATF, 2022).

Money laundering and terrorist financing techniques are reviewed by the FATF on an ongoing basis and, where necessary, standards are strengthened to address potential risks. What poses a threat in this arena is the regulation of virtual assets, which have spread as cryptocurrencies gain popularity (FATF, 2022). The FATF keeps an eye on countries to ensure they uphold the required standards and, if not, they are held to account (FATF, 2022).

The government is required to show the FATF that the local environment, laws and work done by investigating authorities and courts to clamp down on money laundering and corruption have improved (News24, 2022).

The Prudential Authority (PA) deems that South Africa's banking sector is at high risk for money laundering, terrorism financing and proliferation financing (funding nuclear or chemical weapons and their components). However, the largest risk is concentrated at the top, among the five biggest banks. The country's biggest banks have the highest concentration of customers – holding 89% of total assets for the banking sector – and thus carry the highest risk.

The chief executive of one of the major banks feels that a possible greylisting may result in South Africa being kicked out of the global financial system. He states that this will make borrowing more expensive, but it will likely also have several knock-on effects. 'The rand will weaken, inflation will spike, interest rates will go up, it will be more expensive to buy food, pay for petrol, buy homes, buy cars. The country can't afford it.' (BusinessTech, 2022a). Nedbank noted that greylisting could have adverse economic consequences for trade and transactions, and possible restrictions on international banks transacting with domestic banks.

In an article presented to the Standing Committee on Finance on 16 August, the Financial Intelligence Centre (FIC) proposed that the Financial Intelligence Centre Act, 2001 (Act No. 38 of 2001) (FICA) be amended, broadening the scope of 'accountable institutions' under its purview (BusinessTech, 2022b).

In essence, the country could be greylisted if the shortcomings identified are not appropriately addressed. This could impact the economy negatively and adversely affect the cost of living. Will the changes to regulations address the shortcomings, if all the relevant roleplayers, including the citizens of the country, do not play their part?

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