WEBINAR

HUNG OUT TO DRY

South Africa's anti-money laundering measures on the grey list

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Acronyms

FATF Financial Action Task Force	**ICRG** International Co-operation Review Group	**AML** Anti Money Laundering
CFT Combatting of Financing of Terrorism	**PEP** Politically Exposed Person	**DPIP** Domestic Prominent Influential Person
UBO Ultimate Beneficial Ownership	**LEA** Law Enforcement Agencies	**FIU** Financial Intelligence Unit

FATF GREY LISTED COUNTRIES

Scenario Analysis

SCENARIOS	DISCRIPTION	ASSUMPTIONS	EFFECTS	IMPLICATIONS
Scenario 1: **Nothing Happens**	L+I is <0	• Event already priced in the sovereign's risk premium; • Not at PNR yet; • The reverse is within reach (i.e. Mauritius)	Negligible	None

Scenario 2:
Worse Happens
	L+I is >1
	Economic and non-economic effects kicking in (prior, during and before)
		• Building into the narrative of failed state;
		• At PNR for failure to cooperate in AML/CFT efforts
		• DFIs borrowing terms (with SoEs) include good standing with the FATFs
		• EU, UK and USA steadfast in their exclusionary approach
		• Credit rating agencies view this adversely
			• Historical negative effect 7,6% of GDP of capital flows
			• Gross inflow of over 6% of GDP (average) lower
			• FDI inflow declines of 3.2% of GDP average
			• Portfolio inflow declines of 3.3% of GDP
			• Gross outflow declines of ~ 3% at the time of grey-list
			• Private sectors inflows 3,3% of GDP and public sector's of 0,5%
			• Ease of doing business resulting in onerous and costly due diligence processes (Insistence on enhanced due diligence by international counterparties)
			• Terms of FDI organisations exclusionary against high AML/CFT risk jurisdictions which impacts access to international finance and trade
				• Billions in AUM in EU, USA and UK which are sensitive jurisdictions for this purpose
				• Strategic relationships with offshore entities
				• Local manager's appointment by offshore managers to manage local assets
				• SoEs' source of funding in international bond and currency markets and terms attendant to such
				• Loss of reliance arrangements with all our international counterparties which results in:
				  ◦ **EDD (and possibly margin) impact on the Trading Desk placing trades with offshore brokers on behalf of SA institutional clients (incl. UTs) going to be a challenged from an EDD standpoint**
				  ◦ **EDD impact on opening offshore trading accounts with Internal Banks (located in the sensitive jurisdictions)**
				
				Impact Analysis Data Points: International brokers used by the Desk; a sense of volumes of trade placed with those brokers; bank accounts held with international counterparties; type and volumes of transactions executed with international counterparties; clearing / custody / trustee services; derivative transactions / trades (ISDA) with international markets; LISP: offshore relationships

Scenario 3: **Only Economic Impact**	**L+I is ~1** Limited to capital flow impact	• Economic folks kneejerk as they don't know what this means • Compliance and regulatory experts believe in the strength of the country's systems • Economic impact of ease of doing business becomes overbearing		
Scenario 4: **Only Ops Impact**	**L+I is ~1** Limited to cost and ease of doing business	• Compliance and regulatory experts overreact • Believe that this is fair reflection and react accordingly • FATF members insist on exclusionary approach		

Thank you

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