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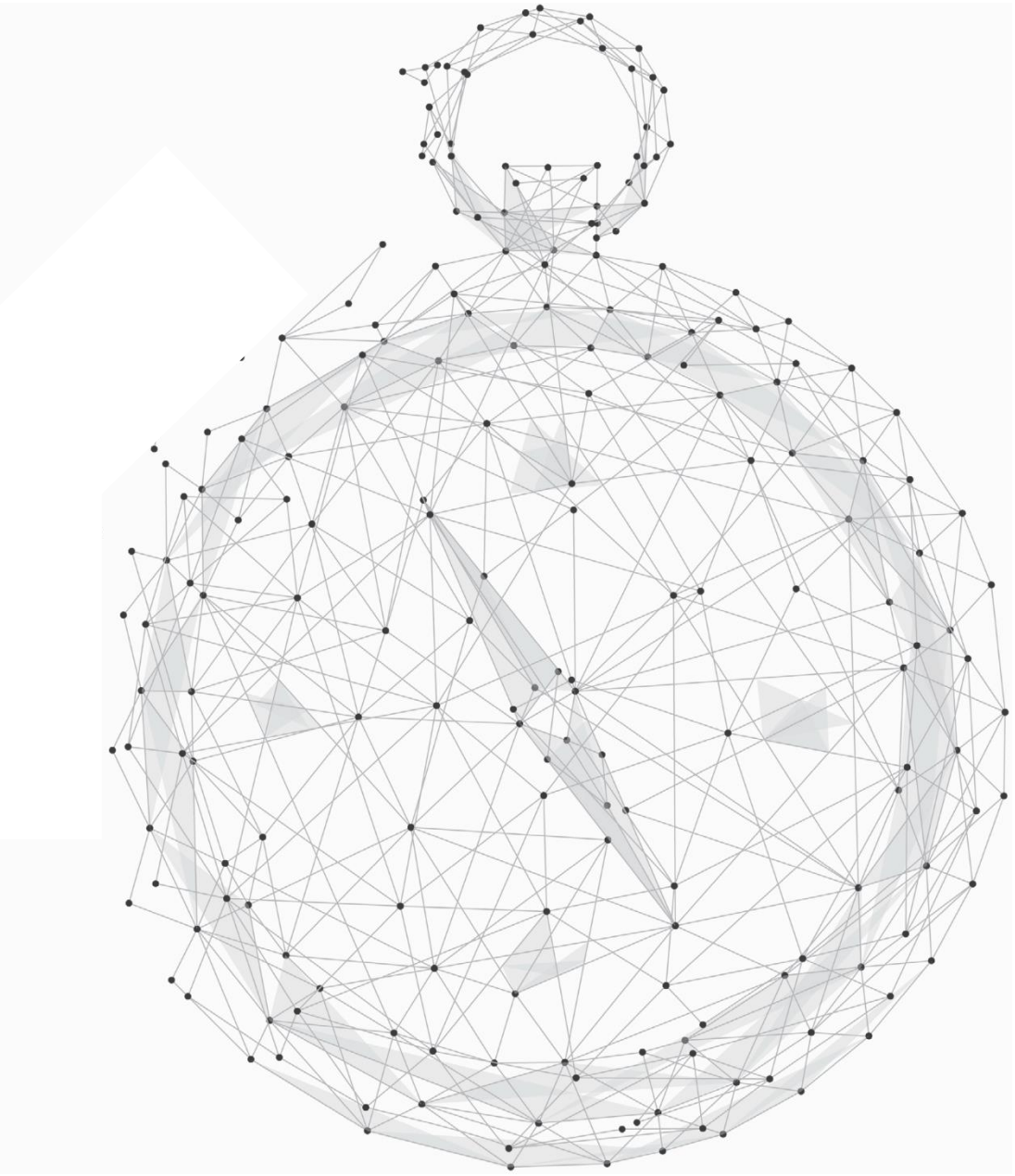

Grey Listing

Dear client

In October 2021, the global money laundering watchdog, the Financial Action Task Force (FATF), found “holes” in South Africa’s’ anti-money laundering measures. They recommended that South Arica address this by developing and enhancing policies in the fight against money laundering and address all the weak spots identified by the FATF. The Grey listing is largely as a consequence of the collapse in commercial crime investigation and prosecution during the state capture era.

Grey listing will be detrimental to South Africa’s banking system, as it will restrict trading partners such as the USA, Japan, China and the UK from trading with South African banks. The integrity of our financial system will become questionable and can have a further negative impact on our economy and knock investor confidence.

Great measures have since been taken by the Department of Justice in an attempt to avoid being grey listed. The Cabinet has subsequently approved the Anti-money Laundering and Combatting Terrorism Financing Amendment Bill which seeks to address deficiencies in at least 14 of the 20 areas of improvement identified by FATF

At this point it is uncertain if SA will be grey listed, but even this uncertainty is damaging to an already fragile economy. A progress report to the FATF is due in October, from where the FTFA plenary will take a final decision in February.

While Grey Listing (if & when it happens) is not a permanent state, it typically takes a number of years for a country to come off the Grey List again once listed, even if the gaps in anti-money laundering measures are addressed satisfactorily. The impact even if minimised can therefore be drawn out over multiple years.

From an investment perspective, it may very well become more challenging for SA investors and fund managers, to invest offshore, especially fund managers that are part of a banking group, as such transaction from a grey listed country will come under more scrutiny than non-grey listed countries.

Investing in South Africa is perhaps less of an issue, but it does impact South Africa’s ability to borrow money in general and could increase the cost of capital.

This is partly the reason for very high SA bond yields, that already carries a risk premium for questionable governance, with the grey listing issue adding fuel to the fire. The good news is that

most of this “bad news” is probably already factored in. If there is a bond selloff because of the grey listing, you may very well see fixed income managers buying into the weakness.

It stands to reason that our robust monetary policies and well-established financial system may limit the impact of grey listing.