



# SOUTH AFRICA GEARS UP FOR ITS MUTUAL EVALUATION

In the first half of 2019, a team of experts began a detailed examination of South Africa's framework for combating money laundering and terrorist financing, and of the proliferation of weapons of mass destruction.

Their intention is to measure, in particular, how effective South Africa has been in implementing this framework. A mutual evaluation is an important opportunity for a country to have their framework on anti-money laundering and combating of terrorist financing reviewed. The outcome can impact perceptions of the country's ability to meet international anti-money laundering and combating financing of terrorism standards and by implication, its reputation as a safe trade and investment destination.

In preparation for the mutual evaluation, the Financial Intelligence Centre has been working with the relevant partners in government, supervisory bodies, representatives in the financial and non-financial sectors, and other role players to gather large volumes of information that will be considered in the course of the evaluation process.

The evaluation team will meet with a selection of representatives from government and industry to understand how they execute their respective functions in implementing South Africa's measures against money laundering and terrorist financing. In performing this task, the evaluation team will concentrate on assessing the extent to which South Africa's authorities and private sector institutions achieve the results envisaged by the standard-setting body, the Financial Action Task Force, to combat and mitigate money laundering and terrorist financing. The assessment team's conclusions will be a reflection of how well South Africa is doing in maintaining the integrity of its financial system.

South Africa's mutual evaluation will be undertaken by two of the organisations of which the country is a member, namely the Financial Action Task Force and the Eastern and Southern Africa Anti-Money Laundering Group. Members of the two organisations each undertake peer reviews of their members and South Africa's evaluation is part of this process. The third member of the evaluation team is the International Monetary Fund.

The evaluations determine the extent to which member countries of these two organisations meet the international Standards of the FATF. This is South Africa's third evaluation since it joined the ESAAMLG in 2002 and the FATF in 2003. The evaluation will deal with two aspects:

- Implementation of the FATF Recommendations that were updated in 2012
- Effectiveness of anti-money laundering and combating of financing of terrorism systems i.e. looking at the outcomes achieved as a result of the implementation of anti-money laundering and combating of financing of terrorism measures South Africa.

The assessment will be made up of two distinct but connected facets: an initial off-site technical review and an on-site review. The technical review, which will occur before the on-site visit, is primarily a desk-based appraisal of the country's level of anti-money laundering and combating of financing of terrorism compliance.

South Africa will provide the assessment team with legal, regulatory and other information regarding its anti-money laundering and combating of financing of terrorism framework. It will also provide an update on measures that have been implemented following the previous mutual evaluation, completed in 2009.

Before commencement of the on-site review, the assessment team will scope which areas to focus upon, and which areas they want to examine in depth in the private and public sectors.

During the second part of the evaluation process the assessment team will focus on the level of effectiveness with which South Africa achieves a number of specific outcomes relative to its system to combat money laundering and terrorist financing. These outcomes include the extent to which authorities and business in South Africa understand the money laundering and terrorist financing risks facing the country and their steps to mitigate these risks.

On the one hand the outcomes also relate to the extent to which the authorities in South Africa are able to use information obtained from the private sector in supporting successful money laundering and investigations, prosecutions and ultimately, to the confiscation of criminal proceeds. On the other hand, the outcomes relate to whether these results are focused on the areas that South Africa considers to be of higher risk.

The unique money laundering and/or terrorist financing environment of each country that is assessed, shapes the assessment team's expectation for the country's effectiveness on the application of measures. Throughout the process South Africa will be required to demonstrate whether its measures, laws and regulations are being implemented effectively across all public and private sector role players.

Following the completion of the on-site visit, the assessment team prepares their draft mutual evaluation report. Their report will cover the country's technical compliance and the on-site review report, and will be provided to the country for comment.

The final draft of the country's mutual evaluation report will be tabled at plenary meetings of the FATF and of the ESAAMLG, respectively. It is at these meetings that the assessors will present their findings, proposed ratings of levels of compliance, as well as recommendations for remedial actions that the country must take, for adoption by the FATF and the ESAAMLG. The finally adopted report will be available on the FATF and ESAAMLG public websites. Subsequent to the adoption of the report, both the FATF and the ESAAMLG will hold South Africa accountable for the follow-up actions that the country will have to undertake to improve its system against money laundering and terrorist financing in areas identified in the report.

## What is FATF and what are FATF Recommendations and Standards

Established in 1989, the FATF is an inter-governmental body made up of 36 member jurisdictions and two regional organisations. The FATF sets International Standards for measures to combat money laundering, terror financing and the financing of the proliferation of weapons of mass destruction which threaten the international financial system.

The FATF 40 Recommendations are a comprehensive and consistent framework of measures which countries should implement in order to combat money laundering and terrorist financing, as well as the financing of proliferation of weapons of mass destruction. The FATF's 40 Recommendations cover the criminal justice system and law enforcement, the financial system and its regulation, and international co-operation. The Recommendations provide a basis and principles for action and implementation by member countries.

The original FATF 40 Recommendations were drafted in 1990 to combat the misuse of financial systems by persons laundering drug money. Evolving money laundering trends related not only to drug money laundering led to the next revision of the FATF Recommendations in 1996. The spectre of terrorist acts and related

organisations forged the creation of nine Special Recommendations on Terrorist Financing 2001.

In 2003, the FATF Recommendations were revised extensively introducing stronger customer due diligence requirements and addressing beneficial ownership in more detail. By this time the FATF was recognised as the global standard-setter and its Recommendations were endorsed by more than 180 countries.

Most recently the FATF Recommendations were revised again in 2012. This revision places the understanding and mitigation of money laundering and terrorist financing risks at the centre of the framework to combat these phenomena and addresses new concerns such as the financing of the proliferation of weapons of mass destruction, while further strengthening the requirements to provide transparency of beneficial ownership of corporate vehicles..