

From insights to opportunities

Anti-Money Laundering
KPMG Forensic



The FATF Grey List is fast approaching... Are you ready for it?

The Financial Action Task Force (FATF) is the global money laundering and terrorist financing watchdog that sets international standards aimed at preventing these illegal activities. With more than 200 countries and jurisdictions committed to their implementation, the FATF monitors countries through ongoing rounds of peer reviews called Mutual Evaluations, to ensure that FATF Standards are implemented appropriately and holds countries that do not comply accountable.

The FATF Mutual Evaluation Report on South Africa published in October 2021 put our systemic deficiencies on Anti-Money Laundering and Counter-Terrorism Financing (AML/CTF) under the spotlight. In respect of technical compliance, South Africa is fully compliant with three and largely compliant with seventeen of the forty FATF recommendations, with twenty negative ratings achieved on the remaining recommendations. When it comes to effectiveness of compliance, South Africa did not achieve any positive scores in the eleven immediate outcomes.

Due to the severity of deficiencies detected in this Mutual Evaluation (ME), the FATF committee came again to South Africa in October 2022 to reassess the progress that made to remediate our strategic deficiencies. This will assist the FATF in deciding on whether South Africa should be included in the FATF list of "jurisdictions under increased monitoring", also commonly known as the FATF Grey List.



How will the FATF grey-listing impact South Africa from a regulatory and economic perspective?

While financial crime risk has always been a major concern for South African financial institutions, the very possible inclusion in the so-called FATF Grey List would officially expose and escalate our failure fighting ML/TF internationally, with severe negative impacts on our reputation, economy, regulations, and daily transactions.

Accountable institutions will be the most affected institutions by the grey-listing, which will be subject to scrutiny from international counterparties as well as multiple upcoming regulatory changes. Therefore, the implementation of adequate Anti-Money Laundering controls is crucial for combatting financial crimes and prevent your organisation from becoming part of criminal economy.

We have performed a study on the impact suffered by other grey-listed jurisdictions with a number of our KPMG member firms located in such jurisdictions and based on publicly available information. Included below is a summary of the possible scenarios that South African entities might face in the event of the FATF grey-listing:

<ul style="list-style-type: none"> SA entities not recognised as equivalent entities <ul style="list-style-type: none"> South African entities not be recognised as equivalent regulated entities. Subject to limitation and scrutiny 	<ul style="list-style-type: none"> De-risking and disinvestment in SA entities <ul style="list-style-type: none"> Institutions reluctant to keep relationships or to start new relationships. Investors may sell their current investment for redomiciling funds.
<ul style="list-style-type: none"> Imposition of AML/CTF audits with international standards <ul style="list-style-type: none"> AML/CTF audit and remediation imposed for keeping relationships, applying international standards. 	<ul style="list-style-type: none"> Delays in payment settlements <ul style="list-style-type: none"> For payments, additional due diligence may be requested. Significant delays of payment
<ul style="list-style-type: none"> Reluctancy to relationships related to PEPs <ul style="list-style-type: none"> Investors would be reluctant to establish relationships with entities related to PEPs. 	<ul style="list-style-type: none"> Extensive KYC performance & remediation <ul style="list-style-type: none"> Reliance of KYC on third parties might be limited. Additional Controls on 3rd parties needed if reliance is possible.

KPMG Forensic Anti-Money Laundering Solutions

KPMG Forensic helps clients to assess the impact of the FATF grey-listing, prepare for the upcoming changes, as well as take actions to satisfy the new requirements of national regulators, FATF standards and international counterparties. KPMG helps clients understand their particular risk exposure taking into consideration their business nature and model, products and services offering, client types, and build customised risk assessment and compliance program, as well as implementing different AML measures, procedures, and controls.

Our services include:

Support to the assessment of possible FATF Grey Listing Impact and design of measures

As detailed above, the very possible FATF Grey Listing of South Africa would lead to significant impact on the business, daily operations and compliance costs. It is necessary therefore, to assess the impact on your institution, make adaptations to your strategy, and consider the implementation of measures and procedures to diminish the coming impact.

KPMG Forensic can support you in this process, by advising on possible impact and scenarios on your concrete business model, providing insights on the experience of institutions located in other grey-listed institutions and help you design and implement measures and procedures to reduce the impact of the Grey Listing and ensure the continuity and sustainability of your business.

360° Comprehensive Gap Analysis following FATF Standards and implementation of remedial actions

Either South Africa is Grey Listed by FATF or not, our jurisdiction including all accountable institutions would still need to remediate our systemic deficiencies as described in the Mutual Evaluation Report. While most institutions in South Africa has started analysing the requirements of FATF, it is difficult to ensure that the new remedial actions can satisfy international standards due to our lack of experience.

KPMG Forensic has a network of national and international experts that already has prior experience in controls and practices that are aligned with international supervisory expectations and can assist you performing gap analysis and implement controls, satisfying FATF and international standards.

Institutional AML/CTF Risk assessment

The understanding of your risk exposure at institutional level is the basis for the implementation of risk-based approach, however, most South African institutions fail to have a proper risk assessment according to the FATF. Many regulators in this sense is expecting that the institutional risk assessment can be refined as soon as possible as a key step toward effective AML/CTF control. KPMG Forensic has extensive experience and knowledge performing risk assessment using international methodology, as well as implementing effective risk mitigating measures following the results

Design and Implementation of RMCP, policies, procedures and effective controls

Based on prior AML gap analysis and risk assessment results, KPMG Forensic can review your Risk Management and Compliance Program, as well as your policies and procedures to ensure they are commensurate with the risks detected at sector and institutional level. Also, we would advise on the implementation of effective controls based on the industry practice at national and international level.

KYC and CDD performance and remediation

In the event of Grey Listing, reliance of Know Your Customer (KYC) on third parties such as financial advisors, intermediaries or agents might be restricted or even not possible, and where this might still be possible, enhanced controls on the performance of KYC for such parties would be necessary. Also, coming legal changes would lead to additional KYC requirements that would need the remediation of new and existing KYCs.

We can also support you to define the methodology and risk matrix to perform adequate Risk Assessment on your clients and business relationships, which is the basis to implement adequate Customer Due Diligence (CDD) and particularly Enhanced Due Diligence (EDD) measures.

AML/CTF Technology solutions

In organisations with a significant number of customers, transactions, and activities, it is not possible to comply with AML regulatory requirements without IT solutions capable of processing such volume of data ensuring its accuracy and quality. Additionally, for suspicious activities detection, it is expected that different institutions have advanced peer profiling functionalities in place instead of using static threshold monitoring rules.

In this sense, KPMG Forensic professionals has a vast experience implementing Regtech and AML/CTF IT solutions and systems, and can assist you with the implementation and optimisation of your systems.

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