



Financial
Intelligence Centre

Financial Action Task Force Mutual Evaluation of South Africa's Anti-Money Laundering, Counter Terrorist Financing and Counter Proliferation of WMD Financing Regime

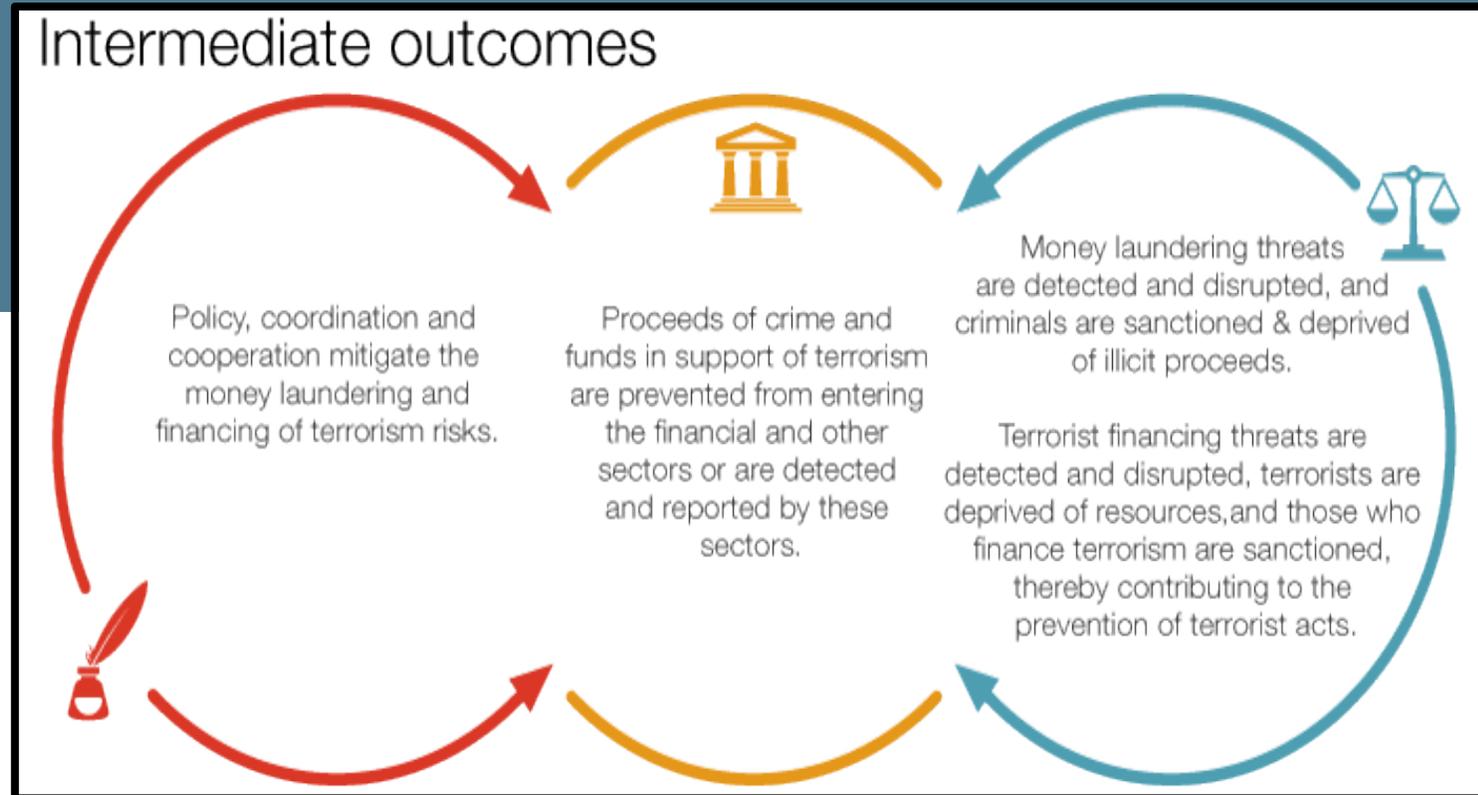
September 2019

2018/19 FATF/ESAAMLG Mutual Evaluation Country Preparation

- **An effective system to combat money laundering, terrorist and proliferation of weapons of mass destruction financing**
- **Global AML/CFT/CPF Standard: FATF 40 Recommendations (2012)**
- **FATF Mutual Evaluation Process and Methodology (2013)**
- **Procedures for the FATF 4th Round AML/CFT Mutual Evaluations**
- **Cabinet Memoranda: Inter-Departmental Multi-Agency Approach**
- **2008/9 SA MER ratings vs. 2019/20 country readiness desk-top self-assessment**
- **Action Plan for possible on-site period: Oct/Nov 2019 (Possible FATF Plenary discussion: June 2020)**

An effective AML/CFT/CPF System (1)

- The purpose of implementing **anti-money laundering and counter-terrorist financing (AML/CFT)** measures is to protect the financial system from abuse.
- A country's efforts in developing sound laws and regulations and implementing and enforcing them should focus on one goal, the **high-level objective of an effective AML/CFT framework** (which is):
- **Financial systems and the broader economy are protected from the threats of money laundering and the financing of terrorism and proliferation, thereby strengthening financial sector integrity and contributing to safety and security.**



- This objective can only be achieved if the components of a country's AML/CFT framework are operating well together.
- The **intermediate outcomes** represent the thematic goals of an AML/CFT system that is effectively protecting financial sector integrity and contributing to safety and security.

An effective AML/CFT/CPF System (2)

- But, adopting compliant laws and regulations is not sufficient.
- Each country must enforce these measures, and ensure that the operational, law enforcement and legal components of an AML/CFT system work together effectively to deliver results: the **11 immediate outcomes**.
- During an assessment, the FATF will look for evidence that demonstrates how well all these components are working together in the context of the risks that the country is exposed to.

Immediate outcomes



1 | Risk, Policy and Coordination

Money laundering and terrorist financing risks are understood and, where appropriate, actions coordinated domestically to combat money laundering and the financing of terrorism and proliferation.

2 | International cooperation

International cooperation delivers appropriate information, financial intelligence, and evidence, and facilitates action against criminals and their assets.

3 | Supervision

Supervisors appropriately supervise, monitor and regulate financial institutions and DNFBPs for compliance with AML/CFT requirements commensurate with their risks



4 | Preventive measures

Financial institutions and DNFBPs adequately apply AML/CFT preventive measures commensurate with their risks, and report suspicious transactions.

5 | Legal persons and arrangements

Legal persons and arrangements are prevented from misuse for money laundering or terrorist financing, and information on their beneficial ownership is available to competent authorities without impediments

6 | Financial intelligence

Financial intelligence and all other relevant information are appropriately used by competent authorities for money laundering and terrorist financing investigations.

7 | Money laundering investigation & prosecution

Money laundering offences and activities are investigated and offenders are prosecuted and subject to effective, proportionate and dissuasive sanctions.

8 | Confiscation

Proceeds and instrumentalities of crime are confiscated.

9 | Terrorist financing investigation & prosecution

Terrorist financing offences and activities are investigated and persons who finance terrorism are prosecuted and subject to effective, proportionate and dissuasive sanctions.



10 | Terrorist financing preventive measures & financial sanctions

Terrorists, terrorist organisations and terrorist financiers are prevented from raising, moving and using funds, and from abusing the NPO sector.

11 | Proliferation financial sanctions

Persons and entities involved in the proliferation of weapons of mass destruction are prevented from raising, moving and using funds, consistent with the relevant UNSCRs.

An effective AML/CFT/CPF System (3)

- To achieve these intermediate outcomes, the FATF has identified **11 key goals** that an effective AML/CFT framework should achieve.
- These key goals or ‘immediate outcomes’ are organised by **thematic goal**.
- During its mutual evaluations, the FATF will assess the effectiveness of a country’s efforts against each of these 11 immediate outcomes.
- The extent to which a country implements the technical requirements of each of the FATF Recommendations remains important, they are after all the building blocks for an effective framework to protect the financial system.

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HIGH-LEVEL OBJECTIVE:

Financial systems and the broader economy are protected from the threats of money laundering and the financing of terrorism and proliferation, thereby strengthening financial sector integrity and contributing to safety and security.

Intermediate Outcomes:

Policy, coordination and co-operation mitigate the money laundering and financing of terrorism risks

Proceeds of crime and funds in support of terrorism are prevented from entering the financial and other sectors or are detected and reported by these sectors

Money laundering threats are detected and disrupted, and criminals are sanctioned and deprived of illicit proceeds. Terrorist financing threats are detected and disrupted, terrorists are deprived of resources, and those who finance terrorism are sanctioned, thereby contributing to the prevention of terrorist acts

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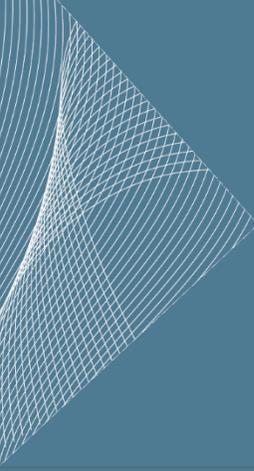
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Global AML/CFT/CPF Standard: FATF 40 Recommendations (2012)

- The FATF Recommendations set out 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. Countries have diverse legal, administrative and operational frameworks and different financial systems, and so cannot all take identical measures to counter these threats.
- The FATF Recommendations, therefore, set an international standard, which countries should implement through measures adapted to their particular circumstances.
- The FATF Standards comprise the Recommendations themselves and their Interpretive Notes, together with the applicable definitions in the Glossary.
- Adopted in 2012 and updated regularly since.
- Related material: Comprehensive set of guidance and best practices; Consolidated FATF Standards on Information Sharing; FATF Methodology for assessing compliance with the FATF Recommendations and the effectiveness of AML/CFT systems; and Procedures for the FATF's fourth round of AML/CFT mutual evaluations.



FATF Mutual Evaluation Process and Methodology (2013) (1)

- The FATF conducts mutual evaluations of its members' levels of implementation of the FATF Recommendations on an ongoing basis.
- These are peer reviews, where members from different countries assess another country.
- A mutual evaluation report provides an in-depth description and analysis of a country's system for preventing criminal abuse of the financial system as well as focused recommendations to the country to further strengthen its system.
- Mutual evaluations are strict and a country is only deemed compliant if it can prove this to the other members. In other words, the onus is on the assessed country to demonstrate that it has an effective framework to protect the financial system from abuse.

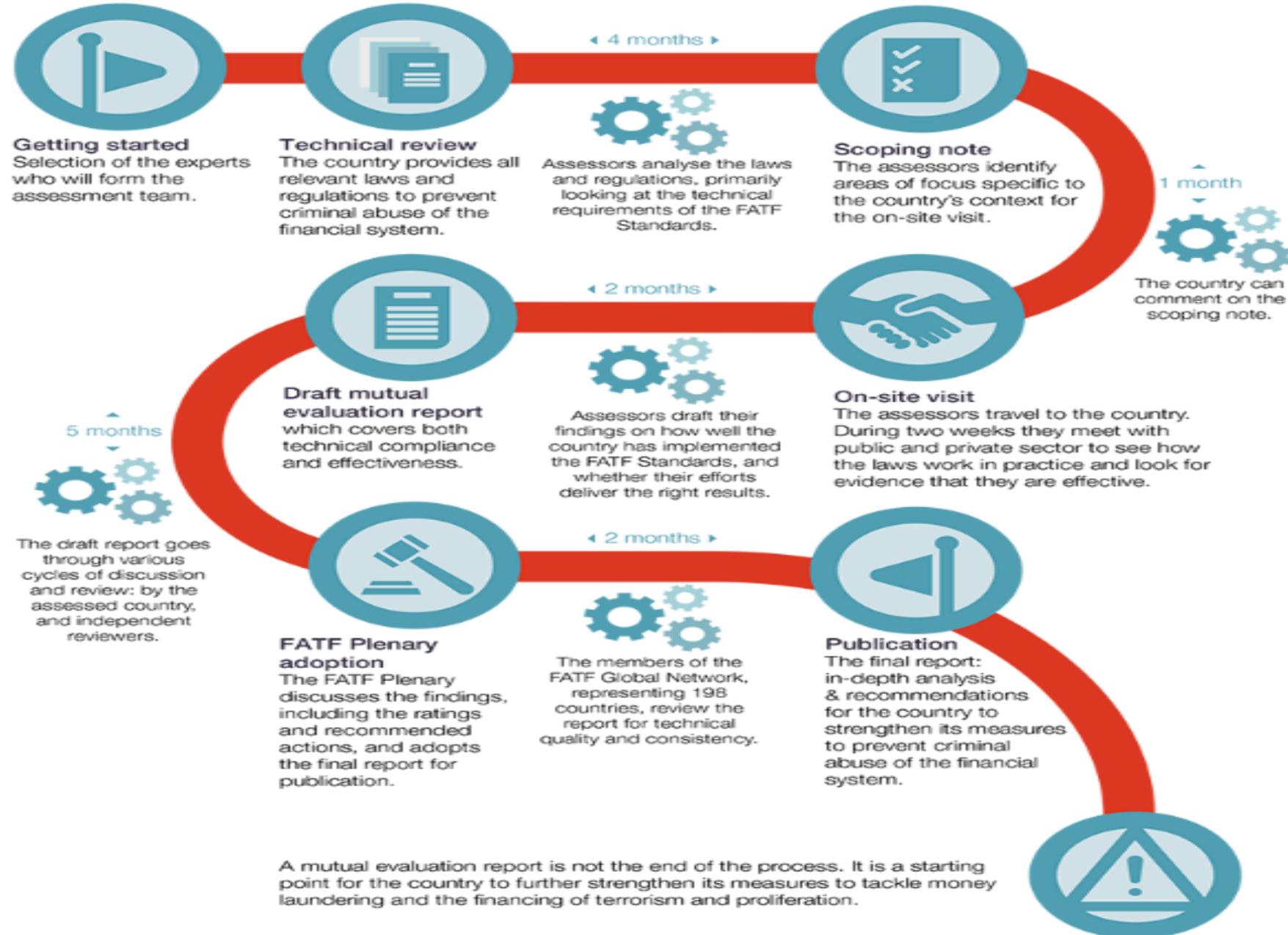
FATF Mutual Evaluation Process and Methodology (2013) (2)

- The main component of a mutual evaluation is effectiveness. This is the focus of the on-site visit to the assessed country. During this visit, the assessment team will require evidence that demonstrates that the assessed country's measures are working and deliver the right results. What is expected from a country differs, depending on the money laundering / terrorist financing and other risks it is exposed to. To ensure consistent and fair assessments, the FATF has developed an elaborate assessment methodology.
- The assessment of technical compliance is part of each mutual evaluation. The assessed country must provide information on the laws, regulations and any other legal instruments it has in place to combat money laundering and the financing of terrorism and proliferation. This used to be the main focus of FATF, and FATF still requires the legal framework to be in place. But experience has shown that having the laws in the books is not enough, the main focus is now on effectiveness.

The Mutual Evaluation Process

A complete mutual evaluation takes up to 18 months. The stages in this process are as follows:

- Assessor training
- Country training
- Selection of assessors
- Technical compliance
- Scoping
- On-site visit
- Report drafting
- Plenary discussion
- Final quality review
- Follow-up



Inter-Departmental Multi-Agency AML/CTF/CPF Approach

Relevant Government Clusters and Policy Departments

Economic Sectors, Employment & Infrastructure Development:
AFF, ED, DMR, EA, Energy, PE, NT, S&T, SBD, PW, Transport, Presidency (PPME)

Justice, Crime Prevention and Security:
ACTT, NICOC
SSA, SAPS, DHA, J&CD, CS

International Cooperation, Trade and Security:
NT, DIRCO, DTI, Tourism, SSA, Environmental Affairs

Governance and Administration: J&CS, J&CD, DPSA, DHA, NT, the Presidency (PPME)

Operational Departments

FIC
(L&P,CAP, MAA)

SARS
(Investigations, Customs)

SAPS
(DPCI, CI Detectives)

IPID

NPA
(SCCU, PCLU, AFU, SIU)

IDWGs/Task Teams: UNSC, CTIDWG, Beneficial Ownership, ACTT, IFFs,

CIPC & NPC

Master of the High Court

SSA & NICOC

DSD
(Non-Profit Directorate)

DEA

Financial Sector and Non-Financial Designated Businesses and Professions (DNFBP) Supervisory Bodies (SARB & FSCA)

Private Sector: Banks, Attorneys, Real Estate Agents, Retail Sector ,etc.

Civil Society
Legal Arrangements

Companies
Legal Persons

Businesses & Professions

Financial Institutions
Financial Service Providers

NATIONAL AML/CFT RISK ASSESSMENT

**START
HERE**

**Set the "Tone
from the Top"
(Cab Memo)
PURPOSE**

**Establish
IDWC &
Steerc
(MANDATE
& TOR)**

**Agree on
Appropriate
NRA
METHODOLOGY
(Aim, Purpose,
Scope)**

**Project Plan
Stakeholder
Analysis
Knowledge
AUDIT**

**Phased
Staged
(S.W.O.T.)
APPROACH**

PLANNING

**Hypothetical
Scenario
Exercises
(SIMULATION)**

**Predicate
Offenses
Quantitative
Information
(TOOLKITS)**

**Public &
Private Sector
Risk
Perception
(SURVEYS)**

**National
Inter-Dep
& Agency
Participants
(STATISTICS)**

**Organic
"Bottom-Up"
Existing
Pockets of
Expertize**

INFORMATION

**Country
Readiness Self-
& Desk-Top
Assessments**

**Extensive
Ongoing
Public &
Private Sector
Consultation**

**Public Private
Partnerships
Workshops
Round Table
(Peer Review)**

**INTEGRATE
Sectoral &
Institutional
Risk
Assessments**

**Holistic
CONSOLIDATED
(Confidential)
AML/CFT/CPF
NRA**

OUTPUT

**Ongoing
Monitoring
Evaluation
Review
(UPDATE)**

**"Pilot"
First NRA
to Regional
Supranational
Assessment**

**Ongoing
Awareness
Raising
Public & Private
Sector**

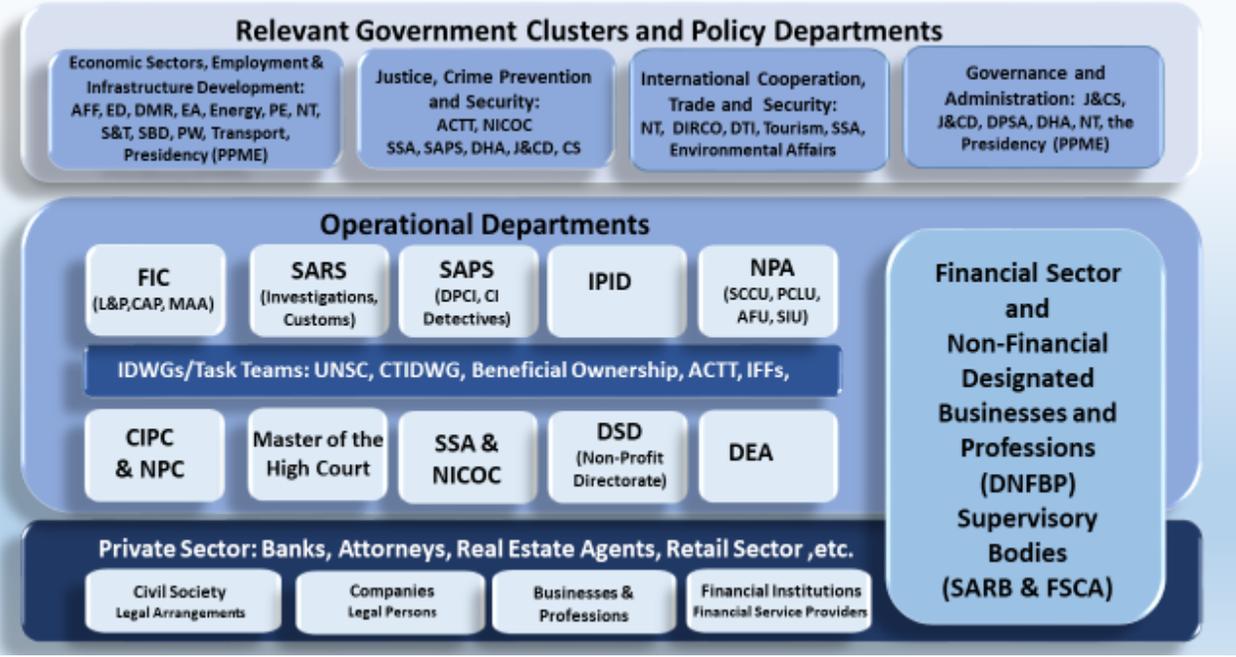
**Publication
Comprehensive
Dissemination
of Final (Public)
Sanitized NRA**

**Create
Adequate
Secure ITC
PLATFORM
(ARCHIVE)**

OUTCOME

Inter-Departmental Multi-Agency Approach

NATIONAL AML/CFT RISK ASSESSMENT



Purpose

- ✓ Application of AML/CFT measures commensurate with identified risks
- ✓ RBA = central for AML/CFT measures

Identify, assess & understand key ML/TF threats & vulnerabilities facing SA

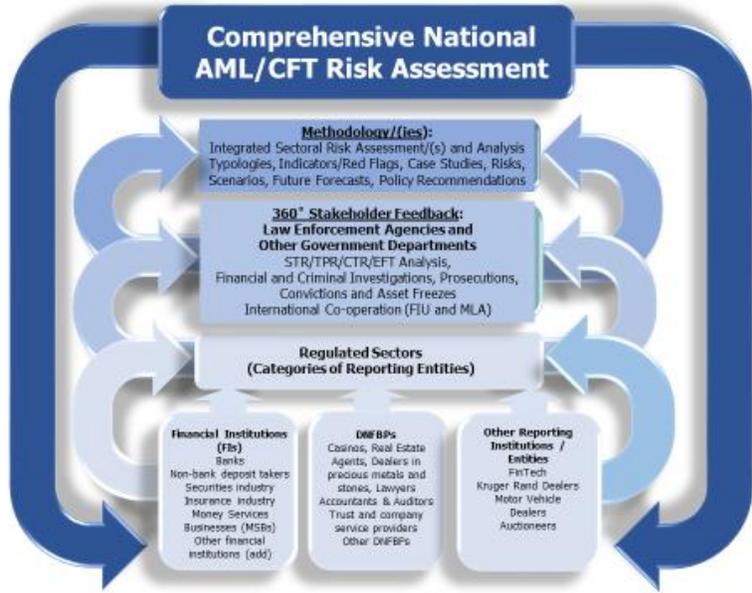
- Identification of ML/TF trends & patterns
- Determine ML/TF threats & vulnerabilities

To apply appropriate control measures to mitigate the risks

- Changes to AML/CFT policies and framework
- Inputs towards the development of AML/CFT Policy
- Assist in the allocation and prioritization of AML/CFT resources

Output/(s):

1. NR
 2. Sectoral Assessments
 3. AML/CFT Policies & Strategies
 4. Statistical Analysis
-
1. Amendment to AML/CFT Laws
 2. Revision of guidelines/policies
 3. Revision of AML/CFT Policy
 5. Outreach to the Private Sector
 5. Revision of resources & budget allocation



The NRA is a tool to facilitate our understanding of ML/TF Risks & an effective AML/CFT regime is critical for SA to ...

- ✓ Reduce overall financial crime in SA.
- ✓ Increase government revenue & reduce leakages in the economy through IFFs.
- ✓ Preserve the integrity & reputation of SA's financial system.
- ✓ Create a conducive environment for businesses & investors.
- ✓ Support Government's National Development Plan.
- ✓ Strengthen SA's reputation as a country committed to combat ML/TF/PF.

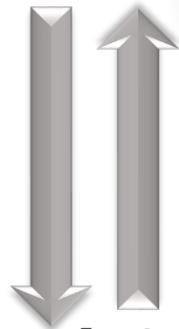
Inter-linkages between NRA, Sectoral Risk Assessments & Institutional Risk Assessments

Country Level

Sectoral Level

Institutional Level

Communication & Guidance



Input: Data

NRA

Sectoral Level Assessment

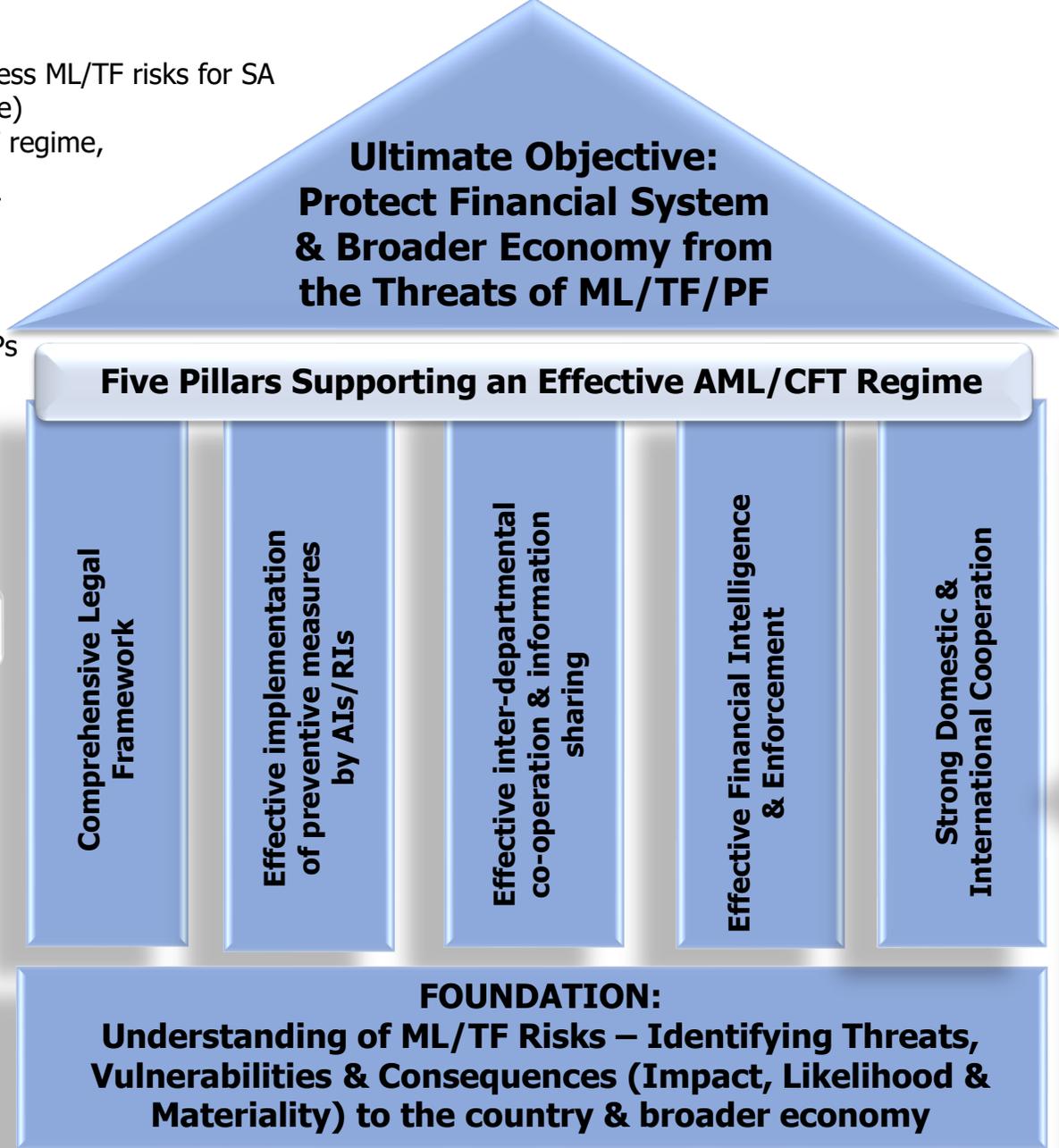
E.g. Banking, Commercial, Investment, Securities, Insurance, MVTSSs, Remittances, etc.

Institutional Assessment

Compliance Program: Oversight, Training, Audit, CDD, Transaction Monitoring, STR – Red Flags

South Africa should:

- ✓ Take appropriate steps to identify and assess ML/TF risks for SA
- ✓ On an ongoing basis (keep NRA up-to-date)
- ✓ Inform potential changes to SA's AML/CFT regime, laws, regulations and other measures
- ✓ Allocate & prioritize AML/CFT resources of competent authorities
- ✓ A mechanism to disseminate AML/CFT NRA, Sectoral & Institutional RAs to competent authorities, SRBs, FIs & DNFBPs



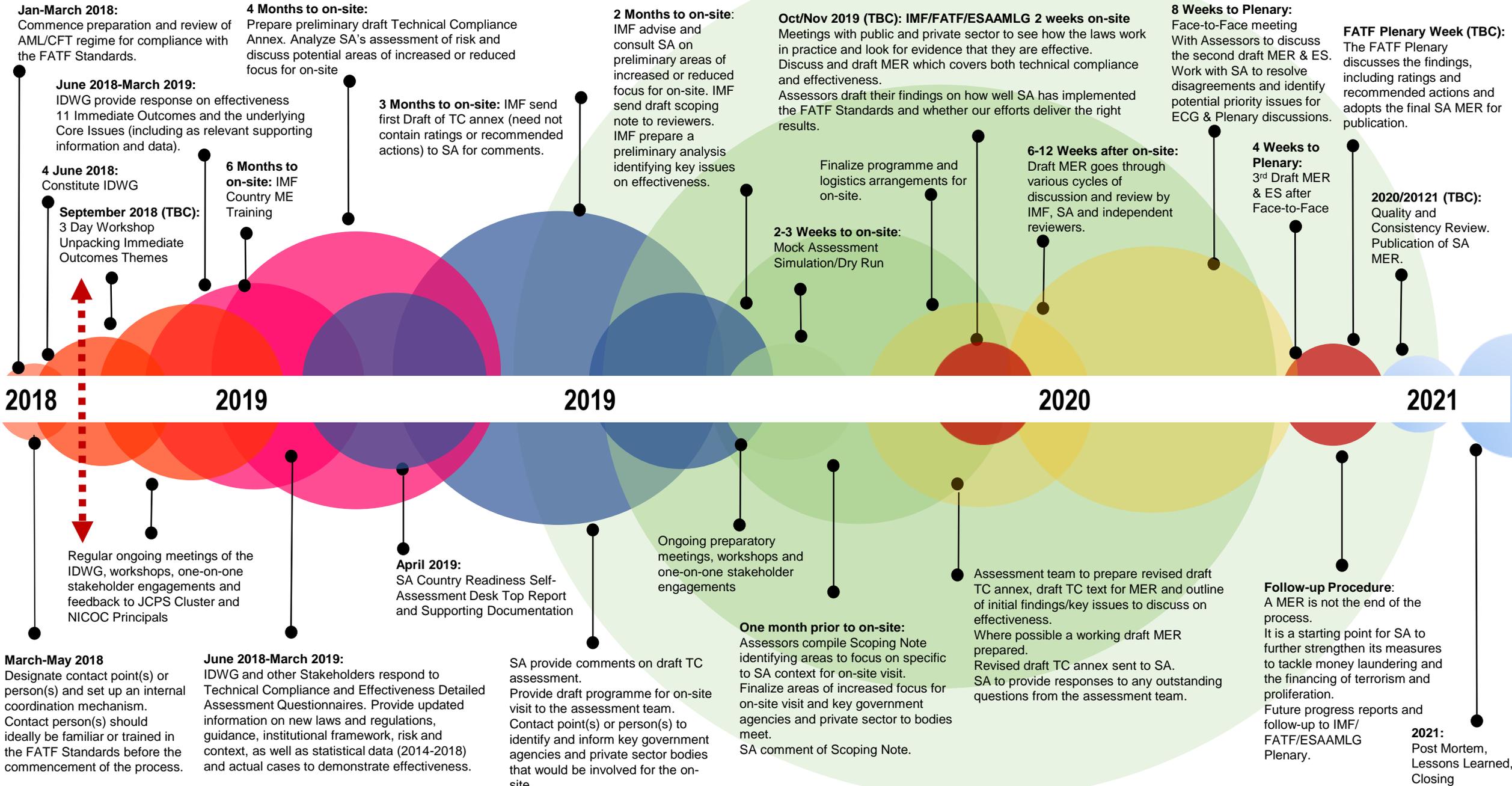
Understanding of ML/TF/PF Risk & more importantly, DEMONSTRATING the EFFECTIVENESS of RISK MITIGATION measures, will be KEY to the Mutual Evaluation & ratings

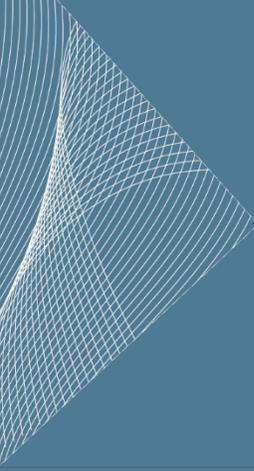


- ✓ Reflecting NRA findings into Compliance, Reporting & CDD Programs, Transactions Monitoring, Oversight & Audit
- ✓ Development of Specific Red-Flag Indicators to identify crimes
- ✓ Tailored outreach, training, awareness raising, feedback & guidance

Cooperation and collaboration are vital for the South African AML/CFT/CPF regime to be effective

IMF/FATF/ESAAMLG 2018-2021 MUTUAL EVALUATION ROADMAP: KEY INDICATIVE MILESTONES





Thank you