

The consequences of South Africa's greylisting

As anticipated, the Financial Action Task Force (FATF) has added South Africa to the list of jurisdictions under increased monitoring, the greylist, with immediate effect, following its annual meeting which concluded on 24 February 2023. Now that South Africa has been greylisted, the FATF will work with the country to address identified strategic deficiencies.

What does greylisting mean for South Africa and the local market?

As Sandy McGregor discussed in our [Q4 2022 Quarterly Commentary](#), we do not expect the greylisting to seriously impede foreign investment in South Africa. Private sector companies in our country are well regarded and have long-established financial links, which will continue to operate. Trade between South Africa and the rest of the world will continue, especially as the world needs our raw materials. Legitimate investment abroad by South Africans will continue. However, the news is expected to impact sentiment and business confidence, and there will be an adjustment period as individuals and entities digest the practical implications – which are discussed further below.

The key to reducing the adverse impact of greylisting is a convincing commitment by government to continue working with the FATF to address the issues that have been raised. The impact on the country will depend on how long we remain on the greylist, as the severity increases over time. Mauritius, by way of example, got off the greylist within 18 months by displaying the necessary commitment.

In its announcement, the FATF acknowledged the significant progress South Africa has made since the adoption of its Mutual Evaluation Report in June 2021. The FATF also provided an overview of its remedial action plan. It is encouraging that the FATF also recognised the high-level political commitment to strengthening the effectiveness of the country's Anti-Money Laundering and Countering the Financing of Terrorism measures.

South Africa has committed to addressing the [eight areas of strategic deficiency](#) highlighted in the FATF's greylisting announcement by no later than the end of January 2025.

What are the implications for investments on the Allan Gray Offshore Investment Platform?

It is somewhat reassuring that the measures implemented by the financial services sector were not noted as part of the deficiencies which resulted in the greylisting. However, this does not mean that the sector will not be impacted. Following the FATF's decision, international fund managers and their administrators will review their distribution practices in South Africa, based on their own internal risk-based approaches. This could result in additional due diligence requirements.

The practical implications for clients will therefore only become clear once the reviews by these fund managers and their administrators have progressed. We do not, however, anticipate material changes. The majority of clients on the Allan Gray Offshore Investment Platform are likely to be shielded from much of the additional administrative procedures, as the enhanced due diligence will be performed on the Allan Gray entity holding units on behalf of investors. Approaches may vary, however, and some fund managers may require additional documentation from our clients.

Businesswise, what happens next?

As an investment platform, we are equipped to manage changes of this nature. We will continue to engage with the international fund managers on our platform to ensure that we understand any changes in requirements. As always, we will approach these engagements in a way which seeks to minimise any negative impacts for clients and financial advice businesses, while ensuring that the requirements necessary for clients to access international investment options continue to be met.

As a firm that has been operating in South Africa for close to five decades, we are used to navigating volatility and adapting to changes in our economic environment. As always, we will remain focused on implementing our long-term investment approach and uncovering great opportunities for our clients – which can arise at times of uncertainty.

Commentary contributed by Sandy McGregor, portfolio manager, and Daniel van Andel, head of IFA Proposition, Allan Gray

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