Seed Global

At Seed, we believe that the distinction between local and global investing is merely an artificial construct, and we can help you navigate the path. This is your guide to borderless investing with Ian De Lange, Chief Investment Officer.

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South Africa In The Naughty Corner

SA has been a member of FATF since 2003, and therefore should know exactly what is required from it. However, at the end of February, the global body concluded that SA had not taken sufficient steps, and placed the country on the notorious "greylist:", which in essence means "increased monitoring".

Paris based Financial Action Task Force (FATF), is an independent intergovernmental agency that "develops and promotes policies to protect the global financial system against money laundering, terrorist financing and the financing of proliferation of weapons of mass destruction".

The greylisting extends back over 3 years to the extensive peer review conducted during Oct/Nov 2019 and reported back in Oct 2021 in a comprehensive 236-page report. 40 key deficiencies were summarized from page 229 of this report, not all of which had been rectified in time, and included aspects such as:

- Insufficient risk profiling of clients
- Not proactively seeking international co-operation with relevant authorities
- Low compliance around politically exposed persons
- Insufficient controls around detecting and seizing illicit cash flows
- Law enforcement agencies not proactively investigating cases
- And on and on…

It's of no use arguing that most countries, including all first world countries, are probably deficient in many key areas that concern FATF.

The rules have been established and the game needs to be played. And South Africa just got a yellow card – joining 22 other counties, including the likes of Barbados, Burkina Faso, DRC, Haiti, Jordan, Nigeria, Philippines, Syria, Uganda, and UAE.

There is no doubt that this is an additional negative for the economy and a repellent for much needed foreign investment, but what does it mean for the SA investor?

1. South African investors operating in a global environment (i.e., everyone) will now be automatically deemed an even higher risk by all foreign institutions.
2. Therefore, when you open an offshore bank or custodian account, expect more compliance requests.
3. Where you operate with a company or trust structure, expect to provide even more details regarding beneficial ownership.
4. Global bank transactions will attract greater scrutiny and explanation, especially as to source of funds.
5. There is likely to be an even greater level of compliance when conducting any large transaction – vehicle purchase, property purchase, etc.
6. As global institutions weigh up their commercial priorities and the additional compliance cost of dealing with SA citizens, don't be surprised to see some looking to cut ties altogether.

Over the last 20 plus years, I have seen a huge increase in compliance around financial transactions. The FATF greylisting merely adds insult to injury, burdening the "consumer" with unnecessary additional compliance costs.

We hear that the South Africa's "downgrade" to the greylist, is "already in the price", but only time will tell whether this statement is completely accurate or not.

There is only one recommendation – and that is to always be thinking about and proactively engaging in increased diversification. And yes, specifically increasing geographic diversification for your savings and investments.

For guidance and assistance, please reach out to Ian and our Global team on global@seedinvestments.co.za.

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