

NEWS

February 24, 2023

South Africa, Nigeria Make Global ‘Gray List’ as FATF Suspends Russia

By Benjamin Hardy

The Financial Action Task Force added the two largest economies in sub-Saharan Africa to a “gray list” of jurisdictions under increased monitoring, the group announced Friday.

South Africa and Nigeria join 21 other nations on the list after failing to address long-term deficiencies in their frameworks against financial crime, FATF President Raja Kumar told reporters at the conclusion of the group’s three-day summit in Paris. Morocco meanwhile exited the list Friday after 13 years of increased monitoring, as did Cambodia after 12 years.

Kumar, an advisor in Singapore’s Home Affairs Ministry who began his two-year term at the helm of FATF in July, claimed that the group has made progress in revising standards covering the beneficial ownership of legal arrangements but aired his disappointment with the slow pace of implementing anti-money laundering rules for virtual asset service providers, or VASPs.

“Regrettably, many countries have failed to take the necessary action,” said Kumar, which in turn created “loopholes that criminals easily access.”

FATF also formally suspended Russia's membership in the group Friday, which marked the first anniversary of the Kremlin's ongoing, full-scale war on Ukraine. FATF has banned Russia from participating in all meetings or projects since October (<https://www.moneylaundering.com/news/russia-essentially-sidelined-by-fatf-as-pakistan-escapes-gray-list/>), making the practical impact of today's suspension unclear.

Kumar told reporters Friday that South Africa landed on the gray list solely because of technical shortcomings in the country's anti-money laundering regime, not because of the nation's reluctance to adopt the West's approach towards Russia over the past 12 months.

Rick McDonell, a Quebec-based AML consultant who formerly served as executive secretary of FATF, agreed.

"It follows naturally from the poor performance they've had, which has been measured by their mutual evaluation reports," McDonell, now an executive director at ACAMS, told *moneylaundering.com*. "It's big news in one sense, but it's automatic in another."

Several countries have long questioned the impartiality of FATF's decisions and pointed out that G-7 nations have major deficiencies of their own.

Financial criminals the world over seek investment opportunities in the U.S. and the dollar remains the default currency for illicit transactions, said Ross Delston, an AML specialist in St. Louis.

"Countries like Nigeria and South Africa have a legitimate beef that they are being unfairly singled out," said Delston. "Everyone needs to ratchet up their game."

Trusts and digital assets

Kumar said Friday that FATF had reached a “major milestone” in finalizing revisions to technical recommendation 25, which covers the beneficial ownership of trusts and other legal arrangements.

FATF plans to make the specific revisions public in the weeks ahead and separately issue guidance on recommendation 24, which governs the beneficial ownership of companies and other legal entities.

The revisions to recommendation 25 aim to iron out the inconsistencies between the group’s beneficial ownership standards for companies on the one hand and for trusts on the other, said McDonell.

The group lists 40 technical recommendations altogether, and for the past decade has assessed how effectively nations observe and enforce those standards in practice.

Delegates also agreed Friday on a “roadmap” for implementing FATF’s directives for supervising digital assets and VASPs, Kumar said.

FATF revised recommendation 15 five years ago to extend AML program and “travel rule” requirements to VASPs, but adoption remains scant.

The group now plans to identify what steps “countries with materially important virtual asset activity” have taken to observe the recommendation and report on their progress next year.

“The largest [cryptocurrency] exchange in terms of volume, Binance, doesn’t even have a home regulator, yet somehow they’re able to do business throughout the world,” said Delston. “That’s a good example of how jurisdiction shopping or total evasion is tolerated.”

FATF plans to release a report on money laundering and terrorist financing in the arts and antiquities market on Monday, and publish findings on the flow of money and digital assets tied to ransomware in the coming weeks.

Findings from the group's evaluations of Indonesia and Qatar will be made public in May.

Contact Benjamin Hardy at bhardy@acams.org

Topics :	Anti-money laundering , Counterterrorist Financing
Source:	FATF
Document Date:	February 24, 2023