A study of the anti-money laundering framework in South Africa and the United Kingdom

by

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In partial fulfillment for the degree LLM (Mercantile Law) at the University of Pretoria

2016

Under supervision of Professor Corlia Van Heerden
ACKNOWLEDGMENTS

First and above all, I praise God, the almighty for providing me this opportunity and granting me the capability to proceed successfully.

I would like to thank my supervisor, Professor Corlia Van Heerden for her valuable input and guidance throughout this mini-dissertation.

Special thanks to my beautiful wife, Denise, for her love, support and keeping me focused through hard times.

My parents, Mr and Mrs Sujee for their support that allowed me to complete this mini-dissertation.
DECLARATION

I declare that A study of the anti-money laundering framework in South Africa and the United Kingdom is my own work, that it has not been submitted before for any degree or examination in any other University, and that all sources I have used or quoted have been indicated and acknowledged by means of complete references.

Zain Jadewin Sujee
14 December 2016
ABSTRACT

Given the fact that money laundering can serve to create a smokescreen for financing of various activities that not only are criminal in nature but that can also threaten lives and can sweep across borders it has been recognised globally that mechanisms have to be put in place to prevent money laundering as a conduit for criminal activity. An effective AML framework is thus not only necessary but is essential for South Africa to combat money laundering.

This study investigates whether the AML framework in South Africa is sufficient in combating money laundering. In addition, it seeks to address the shortcomings of the AML framework in South Africa, highlight certain areas for improvement in comparison to the UK AML framework and reveals the need for further incorporation of the global AML framework into the AML framework in South Africa.

The UK has adopted a progressive stance towards combating money laundering which pre-dates the measures introduced by the international community. It has implemented all the international legal AML instruments emanating from the UN and EU and in many instances, its provisions have exceeded the international benchmarks.

South Africa is a country that is highly susceptible to money laundering as a result of its financial system being the major financial center in the African region and it is clear that South Africa will need to rely on the available international expertise in money laundering from countries such as the UK.

Ultimately this study illustrates that it is essential for South Africa to critically examine its AML framework and address remaining deficiencies to bring it in line with the global AML framework. In addition, South Africa needs to adopt an aggressive stance towards money laundering and go beyond the international standards and implement and formulate its own legislation which is tailored towards its own unique challenges. South Africa further needs to increase available resources and institutional and structural capacity in order to combat money laundering and ultimately seek solutions to overcome the challenges it faces as a developing country.
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Chapter One

Background to study

1.1 Introduction

The term ‘money laundering’ is a reasonably new concept, having come into phrasing in the mid-1970s and is defined as the processing of criminal proceeds to mask their illegal source.¹ It is said to have its origins from the early practice of American criminal organisations, particularly the Italian Mafia, operating Laundromats as cash-intensive businesses to hide their criminal income from the authorities.² Money laundering is a term used to describe a deliberate, complicated and sophisticated procedure by which the proceeds of crime are camouflaged, masked or made to appear as if they were earned lawfully by other legitimate means.³ Norman Mugarura describes money laundering as a three-stage process, which is as follows:

- ‘the dirty money must be severed from the predicate crime generating it;
- it must be characterised by a series of transactions designed to obscure or destroy the money trail in order to avoid detection; and
- the criminal proceeds must be reinvested in furtherance of the objectives of the business (launderer).’⁴

Money laundering is one of the essential weapons that organised crime syndicates use around the world as it enables these criminals to retain the proceeds of their unlawful undertakings and enjoy the benefits of their crimes.⁵ The biggest benefit that money laundering has to criminal organisations is that it has the possibility of providing a steady and readily available cash flow to criminals to carry out further offences, and may possibly provide an incentive to criminals as it allows these criminal acts to become profitable.⁶ Money laundering, not only in South Africa, but around the world, has been featured prominently in the media and has been associated with various crimes such as arms dealing, kidnapping, murder, drug trafficking and human trafficking.⁷

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³ Ibid.
⁵ Ibid.
⁶ Ibid.
⁷ Ibid.
further provided infamous political dictators and notorious organised crime figures with means through which they can have their financial interests protected and aided them to avoid the legitimate confiscation of their dishonest crime proceeds.\(^8\)

With the recent advances in online technology and new payment systems which allow the effortless transfer of currencies globally, the methods used in present-day money laundering are essentially limitless whilst more ancient money transfer processes can be easily adapted and utilised to camouflage the proceeds of crime.\(^9\)

Due to the guarded nature of money laundering it is justly difficult to identify and categorise the various methods of money laundering used by criminals and no finite description can be given to the full range of criminal devices used.\(^10\)

The ultimate goal of any money launderer is to circumvent law enforcement and evade the reach of the law, more specifically, to avoid the confiscation of their fraudulent income or to avoid or evade the relevant tax authorities.\(^11\) When applied to civil wrongs, the aim of the money launderer is to avoid, for example, the enforcement of a court order against their assets in a divorce case.\(^12\)

Norman Mugarura eludes that money laundering patterns fall into three distinct categories:

- ‘internal money laundering, characterised by the laundering of the proceeds of crime committed within a given country or assets to be used in committing more crimes there – an example would be the prominent case of the ‘dagga’ trade in South Africa;
- incoming/inflowing money laundering, which entails the laundering of assets derived from crimes committed outside the country and reintroduced as investment – the most notorious of this type being foreign currency importation; and
- outgoing money laundering, which very closely mimics the classical cases. In this typology, the proceeds of crime committed within the county are exported to one or more countries, as highlighted by the case of counterfeit currency in Uganda.’\(^13\)
The principal goal of the money launderer is to completely conceal the origin of the illegal proceeds and to get the money to the international money markets where total elasticity can be achieved, the beneficiary being able to invest the ill-gotten gains anywhere in the world.\(^\text{14}\)

Given the fact that money laundering can serve to create a smokescreen for financing of various activities that not only are criminal in nature but that can also threaten lives and can sweep across borders it has been recognised globally that mechanisms have to be put in place to prevent money laundering as a conduit for criminal activity.

1.2 Global anti-money laundering framework

The Basel Committee under the Bank of International Settlement; the Council of Europe; the Vienna Convention of 1988 and the FATF constitute the global anti-money laundering (hereafter “AML”) framework, but is not limited to the aforementioned regimes.\(^\text{15}\) The global AML framework is an internationally accepted framework which is a necessity to ensure a synchronised and vigorous application of internationally accepted AML standards on a progressive basis.\(^\text{16}\) The global AML framework is an essential weapon used to inhibit criminals from mistreating the global financial system and serves as a tool to overcome flaws in the AML framework of individual countries.\(^\text{17}\)

Norman Mugarura notes that attempts made by less developed countries towards implementing the global AML framework are disrupted by various factors, such as deficient economic and social infrastructure, limited resources and corruption.\(^\text{18}\) This dilemma creates an environment for exploitation and reduces these countries defenceless when opposing their money laundering challenges.\(^\text{19}\) The challenges faced by less developed countries are further compounded by a lack of institutional and structural capacity to harness global AML standards locally which have in turn translated into an environment conducive to criminal exploitation, while diminishing the same state’s capacity to counteract new challenges, such as money laundering.\(^\text{20}\)

\(^{14}\) Ibid.
\(^{15}\) Norman Mugarura op cit note 2.
\(^{16}\) Ibid.
\(^{17}\) Ibid.
\(^{18}\) Ibid.
\(^{19}\) Ibid.
\(^{20}\) Ibid.
1.3 Overview of the anti-money laundering framework in South Africa

The IMF has pointed out that, as a result of South Africa’s economy being primarily cash-based and compounded with the fact that corruption, smuggling of precious metals and fraud are the main proceeds-generating crimes, South Africa is a country that is susceptible to the pressures posed by money laundering.\(^{21}\) Lawyers, other service providers and the establishment of shell companies are only but a number of ways in which funds are laundered and in addition, the sophistication of South Africa’s financial system contributes to its susceptibility to misuse by domestic and foreign criminals.\(^{22}\) Furthermore, South Africa’s establishment as the major financial hub in the sub-Saharan region, its advanced banking and financial sector, and more prominently, its cash-based market, makes it susceptible to misuse by international and domestic money launderers.\(^{23}\) An effective AML framework is not only necessary but is essential for South Africa to combating money laundering.

Strivastava, Simpson and Moffat remark that South Africa has had minimum exposure to and relative immunity from international organised crime as a result of the extensive exchange controls and segregation from the international community during the apartheid era.\(^{24}\) The only legislation which addressed the issue of money laundering in South Africa prior to 1998 was the Drugs and Drug Trafficking Act 140 of 1992 which made it an offence to convert the proceeds of drug trafficking, and provided for the reporting of suspicious transactions relating to drugs and drug trafficking.\(^{25}\) It is worth noting that developed countries such as the US and the UK have AML policies which pre-date international AML policies and can be traced back to the 1960s.\(^{26}\)

There was an increasing need for effective money laundering legislation when South Africa re-entered the international community in 1994.\(^{27}\) This increasing need was further compounded by


\(^{22}\) Ibid.


\(^{24}\) Arun Srivastava, Mark Simpson & Nina Moffatt op cit note 6 at 1179.

\(^{25}\) Ibid.


\(^{27}\) Arun Srivastava, Mark Simpson & Nina Moffatt op cit note 6.
pressure on South Africa to bring its legislation into line with international money laundering standards. 28 This increasing pressure lead to the promulgation, in 1998, of the Prevention of Organised Crime Act 121 of 1998 (“POCA”) and of the Financial Intelligence Centre Act 28 of 2001 (“FICA”) in 2001. 29 The POCA and FICA are closely linked: the POCA effectively deals with substantive money laundering offences while the FICA provides the necessary administrative framework for regulating money laundering. 30 The FICA was subsequently amended in 2005 to include combating of the financing of terrorism by the Protection of Constitutional Democracy against Terrorist and Related Activities Act 33 of 2004 (“POCDATARA”). 31

On an international level, South Africa acceded to the 1988 UN Convention against Illicit Traffic in Narcotics Drugs and Psychotropic Substance in 1998. 32 In addition, South Africa is a member of the Eastern and South African Anti-Money Laundering Group which participates in regional and international efforts to control and eliminate money laundering. 33 The South African government is also a signatory to the UN Convention against Trans-National Organised Crime. 34

In March 2015, the World Monetary Fund, through its Financial Sector Assessment Program published a Technical Note on Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) on South Africa. 35 The Technical Note contains technical analysis and detailed information supporting the FSAP’s findings and recommendations. 36 The FSAP note that South Africa has made substantial progress in refining its AML framework since its last assessment which took place in 2008. 37 The World Monetary Fund makes important recommendations that South Africa needs to critically amend its AML framework in order to effectively combat money laundering. 38

Art Garffer notes that corruption and money laundering are still widespread in South Africa with worrying estimates of approximately $2BB to $8BB moving through South African banks, while

28 Ibid.
29 Ibid.
30 Ibid.
31 Ibid.
32 Ibid.
33 Ibid.
34 Ibid.
35 International Monetary Fund op cit note 2.
36 Ibid.
37 Ibid.
38 Ibid.
providing the smokescreen that its AML framework complies with international requirements and fails to provide intelligible oversight within its borders.\(^{39}\) Furthermore, he remarks that South Africa is just an example of a camouflage approach to responsible anti-corruption and money laundering methodologies.\(^{40}\)

**1.4 Scope of dissertation**

The objective of this study is to determine whether the AML framework in South Africa is sufficient in combating money laundering. This investigation will be done by means of a critical review of the AML framework in South Africa. It will further be determined how the AML framework in South Africa compares to the AML framework of the United Kingdom (hereafter “UK”) in combatting money laundering and to what extent the global AML framework has been incorporated into the AML framework in South Africa.

The global threat from money laundering has resulted in a swathe of professional bodies and regulatory regimes, each engaged with a variety of AML processes. The concerted AML efforts to stem and reduce criminal opportunities are ultimately aimed at diminishing the volume of crime committed. The UK’s AML efforts, enshrined within the Money Laundering regulations 2007, are specifically intended to detect, disrupt and deter crime and terrorism through a range of strategies, including measures to restrict criminal access to the financial system.\(^{41}\)

The UK is chosen as a comparative jurisdiction because it has adopted an aggressive stance towards money laundering which pre-dates the measures introduced by the international community.\(^{42}\) Nonetheless, its legislative framework has been broadened to encapsulate the legislative measures introduced by the United Nations (hereafter “UN”) and the European Union (hereafter “EU”).\(^{43}\) The UK’s AML policy is influenced by the need to protect its banking sector and the City of London due to the contribution that each make to the economy.\(^{44}\) Therefore, it is at greater risk than other financial markets.\(^{45}\) The UK plays a leading role in European and world

\(^{39}\) Art Garffer op cit note 5.

\(^{40}\) He remarks that this same pattern of behaviour is evident in countries such as Mexico, Colombia, Venezuela, Guatemala, Honduras, Panama, which affect negatively the operations of many multinational companies.

\(^{41}\) Ibid

\(^{42}\) Ibid.

\(^{43}\) Ibid.

\(^{44}\) Ibid.

\(^{45}\) Ibid.
finance and remains attractive to money launderers because of the size, sophistication, and reputation of its financial markets.

1.5 Methodology

The theoretical point of departure for the exploration of the problem, as illustrated, will be a critical approach to the South African AML framework and a comparative approach to AML in South Africa and the UK. Secondary material such as books, articles and internet sources will be used in this study.

1.6 Structure

Chapter 1 is an introductory chapter acquainting the reader with the concept of money laundering and AML laws as well as its background in South Africa. Chapter 2 contains a critical discussion of the AML framework in South Africa, more specifically the POCA, FICA, POCDATARA, International Co-operation in Criminal Matters Act No. 75 of 1996, Banks Act No. 94 of 1990, case law and other legislation. Chapter 3 is a comparative study of the AML framework in the UK. Chapter 4 entails a discussion on the global AML framework and to what extent the global AML framework has been incorporated into the AML framework in South Africa. Chapter 5 will conclude the research with a discussion and evaluation of the conclusions and the results that have been found in this study.
Chapter Two  The anti-money laundering framework in South Africa

2.1 Introduction

As briefly alluded to in Chapter One, South Africa has passed various AML laws against money laundering.\textsuperscript{46} South Africa’s primary AML legislation is the POCA, FICA and POCDATARA as discussed in more detail below. It should be noted that the financial aspects of POCDATARA have been incorporated in FICA.\textsuperscript{47} The POCA and the FICA are closely linked, and must be read together for a full understanding of the legislation directed at combating money laundering in South Africa.\textsuperscript{48} The South African Courts have handed down various convictions for money laundering offences and the most high profile of these cases is that of \textit{S v Shaik}, where the business advisor to the then Deputy President was convicted of corruption offences and two of his companies convicted of money laundering offences under the POCA.\textsuperscript{49}

The concept of money laundering refers to various offences committed under the provisions of POCA and the term also shares similarities with other crimes such as corruption.\textsuperscript{50} The Drugs and Drug Trafficking Act 140 of 1992 greatly enhanced the South African AML framework as money launderers were only convicted as accessories after the fact before its enactment.\textsuperscript{51} The Act also criminalised the laundering of drug proceeds and imposed a reporting of suspicious transactions obligation.\textsuperscript{52} AML provisions were further extended to all kinds of offences by the POCA.\textsuperscript{53}

2.2 Provisions of POCA

\textsuperscript{47}Chinelle van der Westhuizen\textit{Money laundering and the impact thereof on selected African Countries: A comparative study}(unpublished LLM mini-dissertation, University of Pretoria, 2011) 19.
\textsuperscript{48}International Monetary Fund op cit note 2.
\textsuperscript{49}Ibid.
\textsuperscript{50}Charles Goredema, PrineBagenda, Louis De Koker, Bothwell Fundira, Ray Goba & George Kegoro op cit note 44.
\textsuperscript{51}Ibid.
\textsuperscript{52}Ibid.
\textsuperscript{53}Ibid.
POCA came into effect in 1999, introducing legislative instruments to combat racketeering activities, organised crime and money laundering and further served as the foundation for Acts such as FICA.\textsuperscript{54}

POCA has:

- established offences relating to money laundering and racketeering;
- criminalised money laundering in its entirety;
- criminalised racketeering;
- established offences in relation to activities of criminal groups; and
- imposed an obligation on businesses to report suspicious property in their possession.

These aspects of POCA are discussed in more detail below.

2.2.1 Money laundering offences

The South African legislature defines the concept of ‘money laundering’ in POCA as:

‘Any person who knows or ought to reasonably have known that any property\textsuperscript{55} is or forms part of the proceeds of unlawful activities\textsuperscript{56} and (a) enters into any agreement or engages in any arrangement or transaction with anyone in connection with that property, whether such agreement, arrangement or transaction is legally enforceable or not; or (b) performs any other act in connection with such property whether it is performed independently or in concert with another person, which has or is likely to have the effect –

(i) of concealing or disguising the nature, source location disposition or movement of the said property or ownership thereof or any interest which any one may have in respect thereof;

\textsuperscript{54}Art Garffer op cit note 5.
\textsuperscript{55}“property – money or other movable, immovable, corporeal or incorporeal thing and includes any rights, privileges, claims and securities and any other interest therein and all proceeds thereof”.
\textsuperscript{56}“unlawful activity – any conduct which constitutes a crime or which contravenes any law whether such conduct occurred before or after the commencement of the POCA and whether such conduct occurred in the Republic or elsewhere. proceeds of unlawful activities – any property or any service advantage, benefit or reward which was derived, received or retained, directly or indirectly in the Republic or elsewhere at any time before or after the commencement of the POCA, in connection with or as a result of any unlawful activity carried on by any person, and includes any property representing property so derived”.
(ii) of enabling or assisting any person who has committed or commits an offence, whether in the Republic of South Africa or elsewhere –

(aa) to avoid prosecution; or

(bb) to remove or diminish any property acquired directly or indirectly as a result of the commission of an offense, shall be guilty of an offence.’

POCA applies to any act committed in association with the income of criminal activities which assists or is likely to assist the person who committed such crime to avoid prosecution or to disguise, diminish or remove the proceeds of such criminal activity.

POCA also makes it an offence for a person who knows or ought reasonably to have known that another person has obtained the income of criminal activities to enter into any transaction, agreement or arrangement in terms of which the first person facilitates the second person in retaining or controlling the proceeds of the unlawful activity:

- to make capital available to the second person;
- to obtain property on the second person’s behalf; or
- to benefit the second person in any other manner.

This provision criminalises the behaviour of third parties who assist other persons to enjoy the benefits of the proceeds of criminal activities and it is not necessary to be personally involved in an act to have committed an offence in terms of POCA.

An offence is committed in terms of POCA if:

- ‘a person is involved directly or indirectly in concealing or disguising the nature, source, location or disposition of property forming part of the proceeds of unlawful activities;

- a person assists another person in retaining, controlling or enjoying the proceeds of unlawful activities; or

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58 Arun Srivastava, Mark Simpson & Nina op cit note 5 at 1182.
60 Arun Srivastava, Mark Simpson & Nina op cit note 5 at 1183.
• a person acquires, possesses or uses the proceeds of unlawful activities.\textsuperscript{61}

The test to determine whether a person has knowledge of a fact is set out in Section 1 of FICA and provides that a person has awareness of a certain fact if he or she believes that there is a reasonable likelihood of the reality of a fact, and he or she fails to verify the existence of such fact.\textsuperscript{62} Arun Srivastava, Mark Simpson & Nina note that, ‘a person ought reasonably to have known or suspected a fact if a reasonable diligent and vigilant person has both the general knowledge, skill, training and experience that may reasonably be expected of a person in his or her position and the general knowledge, skill training and experience that he or she in fact has.’\textsuperscript{63} This instance sets out the relationship between the POCA and the FICA: the FICA sets out the situations in which a person ought rationally to have known that the property forms part of the income of criminal activities.\textsuperscript{64} The aforementioned test was set out in the case of \textit{Frankel Pollak Vinderine Inc v Stanton} as:

‘Where a person has a real suspicion and deliberately refrains from making enquiries to determine whether it is harmless, where he or she sees red (perhaps amber) lights flashing but chooses to ignore them, it cannot be said that there is an absence of knowledge of what is suspected or warned against.’\textsuperscript{65}

A defence may be raised that a person reported a suspicion where a charge of an offence committed under s 2(1)(a) or (b), 4, 5 or 6 is reported in terms of POCA.\textsuperscript{66} The penalty under the provisions of the POCA is a minimum fine of \textsterling R100, 000,000.00 and/or a period of imprisonment of thirty years or less.\textsuperscript{67} Furthermore, the proceeds and property involved in the crime may be forfeited under the provisions of POCA.\textsuperscript{68}

\subsection*{2.2.2 Money laundering and racketeering}

When there is a continuous or enduring involvement in at least 2 offences, such as public violence and robbery, a pattern of racketeering activity will have been established under the Criminal Procedure Act.\textsuperscript{69}

\begin{thebibliography}{99}
\bibitem{61} Ibid.
\bibitem{62} Ibid.
\bibitem{63} Arun Srivastava, Mark Simpson & Nina op cit note 5 at 1183.
\bibitem{64} Ibid.
\bibitem{65} Ibid.
\bibitem{66} Ibid.
\bibitem{67} Ibid.
\bibitem{68} Ibid.
\bibitem{69} Prevention of Organised Crime Act 121 of 1998.
\end{thebibliography}
The POCA provides that when proceeds resultant from the abovementioned act are invested, received, used, and retained in or on behalf of an organisation, such an act constitutes an offence. The POCA further criminalises the following acts:

- ‘the direct or indirect acquisition or maintenance of an interest in or control of an enterprise through a pattern of racketeering activity;
- the direct or indirect conduct, or participation in the conduct, of the affairs of an enterprise through a pattern of racketeering activity by a person who manages or is employed by or associated with that enterprise; and

- the management of the operational activities of an enterprise by a person who knows, or ought reasonably to have known, that any person who is employed by or associated with the enterprise is conducting, or participating in the conduct, directly or indirectly, of the affairs of the enterprise through a pattern of racketeering activity.’

A conviction in terms of Section 2(1) carries a fine of R100,000,000.00 or life imprisonment.

2.2.3 Confiscation and forfeiture

The POCA has developed the law relating to confiscation and forfeiture to a large extent by introducing the civil forfeiture procedure. The civil forfeiture procedure, in addition to forfeiting a benefit a criminal may enjoy through unlawful activities, forfeits property that aided or was instrumental in the commission of an offence. Property may be confiscated under the terms of POCA without prosecution or conviction taking place. A confiscation order made under POCA is a civil procedure which requires only that the prosecution prove that the property and/or income were derived from criminal activities.

2.3 Provisions of FICA

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70 Arun Srivastava, Mark Simpson & Nina op cit note 5 at 1185.
72 Charles Goredema, Prine Bagenda, Louis De Koker, Bothwell Fundira, Ray Goba & George Kegoro op cit note 44 at 87.
73 Arun Srivastava, Mark Simpson & Nina op cit note 5 at 1186.
74 Ibid.
75 Ibid.
76 Ibid.

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2.3.1 Purpose

Section 2 of FICA together with the preamble states that its purpose is: “to establish a Financial Intelligence Centre and a Money Laundering Advisory Council in order to combat money laundering activities and the financing of terrorist and related activities; to impose certain duties on institutions and other persons who might be used for money laundering purposes and the financing of terrorist and related activities and to amend the POCA.”77

2.3.2 The Financial Intelligence Centre

The FIC assists in combating money laundering and identifying criminal income.78 The FIC compiles, collects, analyses and retains all material it acquires in terms of the FICA.79 The FIC does not do any investigations related to unlawful activity, it does however provide evidence to co-operate with and guide various investigating authorities, SARS and intelligence services who perform the inquiries.80

2.3.3 The Money Laundering Advisory Council

The MLAC counsels the Minister of Finance on money laundering best practices and policies together with the use by the Minister of his powers under the provisions of FICA and further guides the FIC regarding the exercising of its powers.81

2.3.4 Money laundering control obligations

In terms of FICA, an accountable institution has the following duties regarding money laundering control:

- to identify clients;
- to retain records of business relationships and single transactions;
- to report certain transactions;
- to appoint a compliance officer; and

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77The Financial Intelligence Centre Act 38 of 2001.
78The Financial Intelligence Centre Act 38 of 2001.
79Ibid.
80Ibid.
81Ibid.
• to train employees in their money laundering control duties.  

These duties are levied on accountable institutions, international travellers in general, reporting institutions and persons involved in trades.  

2.3.5 Duty to identify clients and to keep records

In terms of Section 21(1) of FICA, an accountable institution is obligated to verify and establish the identity of a client before concluding a single transaction or initiating a business relationship. Accountable institutions also have an obligation to ascertain related facts with regard to clients with whom they concluded business transactions with prior to FICA.

Failure to identify persons as stipulated constitutes an offence carrying a penalty of 15 years imprisonment or a fine not greater than the amount of R100,000,000.00. Recently, the SARB fined five South African banks over R30 million as a result of weaknesses in their control measures relating to money laundering. The five banks were GBS Mutual Bank, Habib Overseas Bank Limited, Investec Bank Limited, The South African Bank of Athens Limited, and the Johannesburg branch of Standard Chartered Bank.

2.3.6 Cash transactions

Certain information of each transaction to which an accountable institution is party and which comprises the receipt or payment of an amount of money larger than a set amount, must be reported to the FIC within a certain time frame. In section 1 of FICA, cash is defined as coin and paper money of South Africa and travellers’ cheques. In addition, a transaction, in terms of FICA, is a transaction fulfilled among a client an accountable institution in accord with business of that institution.

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82 Ibid.
83 Ibid.
84 Ibid.
85 Ibid.
86 Ibid.
87 Ibid.
88 Ibid.
89 Ibid.
90 Ibid.
91 Ibid.

88 Ibid.
89 Ibid.
90 Ibid.
91 Ibid.
2.3.7 Transfer of cash to and from South Africa

Where a person has the intention of sending cash, exceeding the prescribed amount, he or she must report certain particulars before sending any cash and a duplicate of the report must be sent to the FIC promptly.92

2.3.8 Electronic transfer of cash to and from South Africa

Cash, exceeding the prescribed amount, transferred or received electronically across South African boarders by an accountable institution must be accounted for to the FIC within a prescribed time period.93

2.3.9 Unusual and suspicious transactions

The FICA places a duty on certain institutions and persons to identify and verify the identity of a new client prior to any transaction or any business relationship.94 The FIC issued its first guidance note concerning the approach that should be followed and it advocates a risk-based approach with regard to the verifications of particular clients.95

The Money Laundering Control Regulations96 oblige certain accountable institutions to verify the address details furnished by a client and many are unable to supply any details or records which can sensibly serve to verify their residential details.97 This difficulty is not restricted to those who reside in informal accommodation, but it also happens in many instances that formal residential addresses cannot verified.98 The difficulties on the subject of verification created predicaments for financial institutions, because the Financial Institutions made an assurance in the Financial Sector

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92 S 30(2). “Any person who willfully fails to report the conveyance of cash into or out of South Africa in accordance with S 30(1) commits an offence (S 54). It is important to note that this offence can only be committed by a person who willfully fails to report the conveyance. This offence carries a penalty of imprisonment for a period not exceeding 15 years or a fine not exceeding R10 million (S 68). If the person referred to in S 30(2) fails to send a report regarding the conveyance of cash to the FIC in accordance with that section, he commits an offence under S 55. This offence carries a penalty of imprisonment for a period not exceeding five years or a fine not exceeding R1 million (S 68(2)).”
94 Chinelle van der Westhuizen op cit note 45 at 47.
95 Ibid.
97 Chinelle van der Westhuizen op cit not note 45 at 47.
98 Ibid.
Charter to decisively and considerably increase admission to financial services.\textsuperscript{99} FICA is clear about the need to re-identify current clients, thus the re-identification scheme evidently poses financial and practical challenges to banks.\textsuperscript{100} It is therefore relevant to consider the incentive behind the scheme.\textsuperscript{101} The two main motivations that are often cited is required by International Anti-Money Laundering and Combating of the Financing of Terrorism standards and that it is crucial to enable accountable institutions to identify suspicious transactions by their clients.\textsuperscript{102}

The unusual and suspicious transactions created by FICA are a very wide group and are applied to a broad range of persons.\textsuperscript{103} Any person who has a suspicion or is aware of an unusual or suspicious transaction must report the transaction to the FIC within a set period of time after he had such a suspicion.\textsuperscript{104}

\textbf{2.3.10 Access to information held by FIC}

FIC information together with the FIC’s access to information is regulated in terms of FICA.\textsuperscript{105} Information held by the FIC contains information regarding single transactions and clients and may be inspected and copied by an authorised agent of the FIC by virtue of a warrant issued by a judge or magistrate.\textsuperscript{106} A warrant is not needed if the records are publicly available.\textsuperscript{107} An accountable institution may be obligated to disclose the fact that a person was or was not a client and the FIC may request additional information.\textsuperscript{108}

If the SARS suspects or knows that an accountable institution is unintentionally or purposely implicated in a suspicious or unusual transaction, it must report to the FIC and provide the FIC with any accounts concerning that suspicion or knowledge which the Centre may necessitate to attain its goals.\textsuperscript{109} If the FIC considers that a controlling body has such information, it may request

\textsuperscript{99}Ibid.\textsuperscript{100}Ibid.\textsuperscript{101}Ibid.\textsuperscript{102}Ibid.\textsuperscript{103}Ibid.\textsuperscript{104}The Financial Intelligence Centre Act 38 of 2001.\textsuperscript{105}Ibid.\textsuperscript{106}Chinelle van der Westhuizen op cit note 45 at 56.\textsuperscript{107}Ibid.\textsuperscript{108}S 27. Failure to furnish this information to the FIC constitutes an offence (s 50) that carries a penalty of imprisonment for a period not exceeding 15 years or a fine not exceeding R10 million (s 68).\textsuperscript{109}Ibid.
SARS or the body to refute or verify that belief and if established, certain material must be furnished to the FIC.\(^{110}\)

2.3.11 Search, seizure and forfeiture

Where there are reasonable grounds to suspect that a Section 54 offence has been committed or is about to be committed, and where cash is transferred or about to be transferred, the seizure of cash is provided for in terms of FICA.\(^{111}\) The cash amount stated where a person is convicted of the offence, will be forfeited to the state.\(^{112}\)

Chinelle van der Westhuizen notes that:

‘The forfeiture may not affect any innocent party’s interests in the cash or property. To qualify for this protection, a person must prove:

- that he or she acquired the interest in that cash or property in good faith; and
- that he or she did not know that the cash or property in question was: - conveyed as contemplated in section 30(1) or
- that he or she could not prevent such cash from being so conveyed; or - used in the transactions contemplated in section 64 or
- that he or she could not prevent the property from being so used, as the case may be.’\(^{113}\)

While FICA protects innocent third parties, it is essential to note that the protection does not extend to parties who were simply ignorant of the objective to commit an offence.\(^{114}\) It is restricted to parties who can provide evidence to the fact that they were not aware that the property was to be transferred across South African borders or utilised in a section 64 transaction.\(^{115}\)

2.4 The Banks Act 94 of 1990

\(^{110}\)Ibid.
\(^{111}\)Ibid.
\(^{112}\)Ibid.
\(^{113}\)Ibid.
\(^{114}\)Chinelle van der Westhuizen op cit note 45 at 66.
\(^{115}\)Ibid.
Prospective clients wanting to open bank accounts must be identified and verified in accordance with the Bank’s common law duty. In addition, the bank must select a senior compliance officer and uphold a self-regulating and sufficiently equipped compliance function in terms of the Banks Act. Banks are also required to implement and uphold procedures and policies to safeguard against money laundering, market abuse, insider trading, financial fraud, and market manipulation in terms of Regulation 48. These procedures and policies must at least be sufficient to guarantee observance with applicable legislation, assist collaboration with law enforcement agencies, to provide satisfactory guidance and assistance to staff and to report suspicious transactions. In terms of Regulation 46, money laundering activity must be reported to the Registrar of Banks.

2.5 Prosecutions and convictions

The three cases discussed below illustrate convictions for money laundering offences under the South African AML framework.

2.5.1 S v Dustigar

Nineteen persons were convicted in S v Dustigar for their participation in South Africa’s largest armed robbery with 7 of the accused convicted as accessories after the fact on the strength of their involvement in the laundering of the takings and an eighth accused was convicted on a count of statutory laundering under the Proceeds of Crime Act. Several of the accused were third parties or family members who permitted the abuse of their bank accounts to launder the money. The ninth accused was an attorney who facilitated fraudulent agreements and manipulated his trust account records to launder the illegal money, and was sentenced to five years imprisonment. The thirteenth accused was a member of the SAPS and shaped the laundering plot that implicated seven of the other accused. He was sentenced to 15 years’ imprisonment.

2.5.2 S v Van Zyl

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116 Charles Goredema, Prine Bagenda, Louis De Koker, Bothwell Fundira, Ray Goba & George Kegoro op cit note 44.
117 Ibid.
118 Ibid.
119 Ibid.
120 Ibid.
121 (Case no 27/180/98, Regional Court, Cape Town) reported Case no. CC6/2000, Durban and Coast Local Division.
The accused in *S v Van Zyl* pleaded guilty to negligent laundering in terms of the Proceeds of Crime Act and was sentenced to a fine of R10 000.00 and to imprisonment for 10 years. He allowed his sister-in-law to deposit money she stole from her employer totaling R7 600 000.00 into his bank account. The money was subsequently transferred by means of cheques and ATM withdrawals. The accused made statements that he was under the illusion that the money was made from successful business dealings and investments. He later acknowledged in hindsight, that his beliefs were irrational.

### 2.5.3 S v Gayadin

In *S v Gayadin*, the accused was convicted of money laundering under the provisions of POCA. Gayadin managed to launder more than R11 000 000.00 received from his numerous illegal casinos by enlisting the help of various people to hide the illegal proceeds in offshore bank accounts.

### 2.6 Conclusion

With the advent of FICA in South Africa and its interaction with the provisions of the POCA, it appears that South Africa’s legislative endeavours are in sequence with global standards, as recommended by the Palermo Convention. However, the mere existence of legislation against money laundering is not a guarantee of its adequacy or effectiveness. Even though this legal framework exists, the South African Parliament received the Protection of State Information Bill on the 25th of April 2013, which greatly undermines labours to advance transparency. Gaffer thus remarks that South Africa has abided by AML policies in order to depict a fantasy of tackling corruption and money laundering.

Strivasta, Simpson and Moffatt point out that the lack of resources for implementation at state level to ensure enforcement with the FICA is not merely financial. Enforcement of the FICA

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122(Case no 27/180/98, Regional Court, Cape Town)
123(Case no 41/900/01, Regional Court, Durban)
124Charles Goredema, Prine Bagenda, Louis De Koker, Bothwell Fundira, Ray Goba & George Kegoro op cit note 44 at 83
125Ibid.
126Arun Srivastava, Mark Simpson & Nina op cit note 5 at 1199.
127Art Garffer op cit note 5.
128Ibid.
129Arun Srivastava, Mark Simpson & Nina Moffatt op cit note 5 at 1199.
requires training, experienced personnel and appropriate equipment in order to ensure compliance with the obligations imposed by the Act.\textsuperscript{130} Increasing efforts in South Africa have been made to train staff and other individuals dedicated to the purpose of ensuring the enforcement of anti-money laundering measures, but according to Strivasta, Simpson and Moffatt such training and education falls short of the international standards of some First World countries.\textsuperscript{131} Accountable institutions are given the task of identifying illegally obtained funds. The aforesaid authors however remark that the difficulty of this task is compounded by a high volume of legitimate business conducted with respected institutions.\textsuperscript{132}

Van Der Westhuizen indicates that global money laundering control prowess is accessible for South Africa to depend on in this progression.\textsuperscript{133} However, she points out that the various issues South Africa faces are unfamiliar to developed jurisdictions such as the US and the UK.\textsuperscript{134} As a result, South Africa will have to devise its own answers and strategies in this regard and cooperate with other countries in the sub-region to band their knowledge and assets to grow systems that will effectively deal with money laundering in their economies.\textsuperscript{135}

\textsuperscript{130}Ibid.
\textsuperscript{131}Arun Srivastava, Mark Simpson & Nina Moffatt op cit note 5 at 1199.
\textsuperscript{132}Ibid.
\textsuperscript{133}Chinelle van der Westhuizen op cit note 45 at 55.
\textsuperscript{134}Ibid.
\textsuperscript{135}Charles Goredema, Prine Bagenda, Louis De Koker, Bothwell Fundira, Ray Goba & George Kegoro op cit note 44 at 121.
Chapter Three  The anti-money laundering framework in the United Kingdom

The UK has long recognised the importance of AML legislation as an instrument against terrorist financing and drug trafficking.\textsuperscript{136} Its AML framework has been developed in such a way as to include the various legislative processes introduced by the European Union, the Recommendations of the Financial Action Task Force and the United Nations.\textsuperscript{137} HM Treasury, the UK’s finance department, leads the war against money laundering and is responsible for the UK’s AML strategy.\textsuperscript{138} HM Treasury has in recent years aggressively developed the UK’s AML framework which surpasses the recommendations made by FATF and the three European Money Laundering Directives.\textsuperscript{139}

The UK’s AML legislative framework was originally formed in a fragmented manner, with a number of statutes containing money laundering offences and identifiable inconsistencies between these offences.\textsuperscript{140} The first UK legislation specifically aimed at criminalising money laundering was the Drug Trafficking Offences Act 1986 together with the Criminal Justice Act 1988 which contained the UK’s primary AML offences.\textsuperscript{141} Terrorist financing was however dealt with by the Prevention of Terrorism 1989 and the Northern Ireland Act 1996 and drug trafficking proceeds by the Drug Trafficking Act 1994.\textsuperscript{142} This fragmented structure was subsequently substituted by the Money Laundering Regulations 2007 and the Proceeds of Crime Act 2002 which, together with the Terrorism Act 2000 make up the UK’s current AML legislative framework.\textsuperscript{143}

3.1 Implementation of international anti-money laundering legislative instruments

As eluded to above, the UK has incorporated a number international AML instruments into its framework.\textsuperscript{144} In December 1988, the UK signed the UN Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances, otherwise known as the Vienna Convention, and

\textsuperscript{136} Arun Srivastava, Mark Simpson & Nina Moffatt op cit note 5 at 56.
\textsuperscript{137} Nicholas Ryder op cit note 27 at 73.
\textsuperscript{138} Ibid.
\textsuperscript{139} Ibid. Nicholas Ryder op cit note 27 at 73.
\textsuperscript{140} Ibid.
\textsuperscript{141} Ibid.
\textsuperscript{142} Ibid.
\textsuperscript{143} Nicholas Ryder op cit note 27 at 74.
\textsuperscript{144} Ibid.
ratified it in June 1991, the impact of which is exemplified by the Criminal Justice Act 1990. In addition, the UK also signed the UN Convention against Transnational Organised Crime, otherwise known as the Palermo Convention. Evidence of its influence is illustrated by the fact that it is referred to in the Serious Organised Crime and Police Act 2005.

The UK also implemented a number of AML legislative provisions from the EU, an example of which is the Council of Europe Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime in 1990. The range of the Convention of 1990 was widened by the Council of Europe Convention on Laundering Search, Seizure and Confiscation of the Proceeds from Crime and on the Financing of Terrorism 2005. The EU has further introduced three Money Laundering Directives, the first of which was published in 1991 and the UK implemented the First Money Laundering Directive in 1993, the second directive extended the scope of the UK’s AML obligations. The third Money Laundering Directive was published in 2005 and was implemented by means of the Money Laundering Regulations 2007. The UK’s AML framework goes beyond the Money Laundering Directives as a result of its proactive stance towards implementing the UN and the EU’s AML measures.

In addition to implementing the international money laundering legislative instruments, the UK has clearly recognised and implemented international best practices and industry guidelines. An obvious illustration of this is the Serious Organised Crime Agency’s membership of the Egmont Group of Financial Intelligence Units. Furthermore, the UK is a member of the Basel Committee on Banking Supervision, and it has been a member of the FATF since 1990.

Finally, the UK is an active member of the FATF regarding the UK’s any-money laundering policy and legislative framework as was illustrated in the publication of its 2007 money laundering and

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145Ibid.
146Section 95 of the Serious Organised Crime and Police Act 2005.
147Ibid.
149Nicholas Ryder op cit note 27 at 75.
150Nicholas Ryder op cit note 27 at 76.
151Ibid.
152Ibid.
153Ibid.
154Financial Action Task Force op cit note 151 at 85.
155Nicholas Ryder op cit note 27 at 76.
terrorist finance strategy. In its 2007 Mutual Evaluation Report the FATF concluded that the UK was fully compliant with 19 out of the 40 Recommendations, largely compliant on 9, partially compliant on 9 and non-compliant on 3 Recommendations. The mutual evaluation report concluded that the UK has a far-reaching anti-money laundering legislative framework that fully complies with the Vienna and Palermo Conventions. Ryder accordingly remarks that the UK is clearly committed to implementing the international best practices and industry guidelines, and that these measures have been incorporated into the UK’s AML policy.

Ryder further points out that the UK has fully embraced the risk-based approach towards money laundering. The risk-based approach is one by which institutions identify the criteria to measure potential money laundering risks allowing them to determine and implement proportionate measures and controls to mitigate these risks. Evidence of the risk-based approach in the UK is contained in secondary legislation, the Money Laundering Regulations 2007, the FSA’s money laundering Rules and the Joint Money Laundering Steering Groups Guidance Notes.

3.2 Proceeds of Crime Act 2002

The enactment of the PCA amalgamated all the UK’s money laundering crimes into one piece of legislation. Van Jaarsveld remarks that these offences are so concisely put into words that definitions relating to each of them appear misleadingly uncomplicated. Three principle money laundering offences are created by the PCA together with four related offences, namely, involvement in money laundering activities, acquiring, using or possessing criminal property, and concealing criminal property. Tipping-off, failure to disclose possible money laundering

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156 Ibid.
158 Ibid.
159 Nicholas Ryder op cit note 27 at 77.
160 Ibid.
162 Ibid.
163 Arun Srivastava, Mark Simpson & Nina Moffatt op cit note 5 at 130.
165 Ibid.
166 Where a professional or those working in the regulated sector make a disclosure that is likely to prejudice a money laundering investigation being undertaken by the law enforcement agencies.
activities, prejudicing an investigation, and invalid permission to conduct a money laundering transaction are further criminalised by the PCA.\textsuperscript{167}

“Criminal property” is property that a person knows or suspects to represent a profit or benefit derived from criminal conduct.\textsuperscript{168} An offence is committed in terms of section 327 if a person disguises, conceals, transfers or converts criminal property.\textsuperscript{169} These deeds must be performed in relation to the source, nature, disposition, location, ownership, or movement with regards to the criminal property.\textsuperscript{170}

Section 328(1) of the PCA makes it an offence for a person to enter into or become concerned in an arrangement which he knows or suspects facilitates the acquisition, retention, use or control of criminal property by or on behalf of another person.\textsuperscript{171} Banks may either become unknowingly involved in a money laundering arrangement or may be used by an employee to help criminals with money laundering arrangements.\textsuperscript{172}

Section 329(1) of the PCA makes it an offence to use, have or acquire possession of criminal property.\textsuperscript{173} The definition of the concept ‘criminal property’ means that it is impossible to commit the offence unknowingly.\textsuperscript{174} Consent, a reasonable excuse, conduct sanctioned by the PCA, or acquiring the property for adequate consideration may be used as defences to this offence.\textsuperscript{175} The defence is not available where a person provides services or goods which he suspects or knows may aid another to perform criminal conduct.\textsuperscript{176}

Under the PCA, a person may be required or choose to report a suspicion or knowledge of money laundering either where a consent is required in order to avoid the commission of a principal money laundering offence or where a proactive reporting obligation applies. \textsuperscript{177} In the former case where consent is required, a person makes an “authorised disclosure” under section 338 of PCA seeking

\begin{itemize}
  \item \textsuperscript{167} Ibid.
  \item \textsuperscript{168} Arun Srivastava, Mark Simpson & Nina Moffatt op cit note 5 at 63.
  \item \textsuperscript{169} Section 327 of the PCA.
  \item \textsuperscript{170} Ibid.
  \item \textsuperscript{171} Section 328(1) of the PCA.
  \item \textsuperscript{172} Izelde Louise van Jaarsveld op cit note 147 at 311.
  \item \textsuperscript{173} Section 329 of the PCA.
  \item \textsuperscript{174} Izelde Louise van Jaarsveld op cit note 147 at 312.
  \item \textsuperscript{175} Section 329(2) of the PCA.
  \item \textsuperscript{176} Section 329(3)(c) of the PCA.
  \item \textsuperscript{177} Arun Srivastava, Mark Simpson & Nina Moffatt op cit note 5 at 69.
\end{itemize}
an appropriate consent under section 335 of PCA.\textsuperscript{178} The PCA differentiates between three forms of “failure to disclose” - offences: an offence for nominated officers working in the regulated sector, an offence for other nominated officers and an offence for persons employed in the regulated sector.\textsuperscript{179}

In terms of section 333A, it is an offence for individuals in the regulated sector to “tip-off” after a STR has been filed.\textsuperscript{180} Where a person has knowledge that a STR has been filed and proceeds to disclose information to a third party that may prejudice an investigation, that person will have committed the auxiliary money laundering offence of tipping-off.\textsuperscript{181} The PCA further provides three statutory defences in respect of this offence, including that the disclosure was made in accordance with legislation, that the disclosure was made by a legal advisor in the course of giving legal advice; or lack of knowledge that the disclosure was expected to prejudice an investigation.\textsuperscript{182}

It is not clear whether disclosure for these purposes includes so-called “constructive disclosure”, which might arise, for example, where an intermediary terminated the client’s retainer, or delays carrying out those instructions.\textsuperscript{183}

\textbf{3.3 The Terrorism Act 2000 (TACT)}

TACT came into force on 19 February 2001 and combined previous fragmented offences under former legislation.\textsuperscript{184} The Act comprises various provisions concerning money laundering and expressly creates an offence to enter into or become concerned in an arrangement which facilitates the control or retention of terrorist property by transfer to nominees, removal from jurisdiction, concealment or in any other way.\textsuperscript{185}

There are two elements to the main offence.\textsuperscript{186} First, “terrorist property” which is defined to mean:

\begin{itemize}
\item \textsuperscript{178}Ibid.
\item \textsuperscript{179}Izelde Louise van Jaarsveld op cit note 147 at 313.
\item \textsuperscript{180}Section 333A of the PCA.
\item \textsuperscript{181}Ibid.
\item \textsuperscript{182}Ibid.
\item \textsuperscript{183}Arun Srivastava, Mark Simpson & Nina Moffatt op cit note 5 at 80.
\item \textsuperscript{184}Ibid.
\item \textsuperscript{185}Ibid.
\item \textsuperscript{186}Section 18 of the Terrorism Act 2000.
\end{itemize}

\end{itemize}
(b) proceeds of the commission of acts of terrorism, and

c) proceeds of acts carried out for the purpose of terrorism."\(^{187}\)

It includes property which is wholly or partly directly or indirectly terrorist property.

"Terrorism" is defined widely in TACT, section 1(1) as the use or threat of action where:

‘(a) the action falls within subsection (2),

(b) the use or threat is designed to influence the government or to intimidate the public or a section of the public, and

(c) the use or threat is made for the purpose of advancing a political, religious or ideological cause."\(^{188}\)

An action falls within TACT, section 1(2) if it:

‘(a) involves serious violence against any person,

(b) involves serious damage to property,

(c) endangers a person’s life, other than that of the person committing the action,

(d) creates a serious risk to the health or safety of the public or a section of the public, or

(e) is designed seriously to interfere with or seriously to disrupt an electronic system."\(^{189}\)

Section 15 of TACT makes it an offence for a person to receive, or to solicit, property or money on behalf of terrorists if he/she knows or has reasonable cause to suspect that such property or cash may be used for terrorist purposes.\(^{190}\) An offence is also created in terms of Section 16 for the possession or use of cash for the purpose of terrorism.\(^{191}\)

The next offence created under the Act embraces the notion of the knowingly concerned person in creating an offence for a person who enters into or becomes concerned in an arrangement in which property or money is made available to another and the person knows or has cause to suspect that it may be used for terrorism.\(^{192}\) The second element of the offence created by TACT, is entering
into an arrangement which facilitates the control or retention of terrorist property. Unlike the other offences relating to terrorist fundraising and the use of terrorist property under sections 15 to 17 of TACT, the section 18 offence is a strict liability offence, which means the prosecution does not have to prove any mental state on the part of the defendant. However, it is a defence for the defendant to show that he did not know, and that there were no reasonable grounds to cause the defendant to suspect, that the arrangement related to terrorist property. In practice, therefore, if the defendant became involved with terrorist property completely unknowingly, then criminal liability may not result. The maximum penalty upon conviction is 14 years imprisonment and/or an unlimited fine.

Section 19 also creates the offence of failure to disclose a belief or suspicion that an offence has been committed under sections 15 to 18 of TACT. The Act creates a criminal offence for people who conduct relevant business in the regulated sector who do not make known their suspicion or knowledge that a person is engaged in money laundering.

3.4 Money Laundering Regulations 2007

As a result of the 1991 Directive, the UK released its first anti-money laundering regulations in 1993 and released revised regulations in 2003. The Money Laundering Regulations 2007 replaced the 2003 Regulations and came into effect on 15 December 2007 as a result of the EU’s enactment of the 2005 Directive which required updated regulations. The Money Laundering Regulations 2007 comprises of a detailed AML framework encompassing training obligations, record-keeping and customer due diligence measures. The 2007 Regulations created strict liability money laundering offences which apply to a list of relevant persons as provided for in Regulation 3(1) and criminalised failure to implement AML measures. Under the provisions of the MLR, a person commits a money laundering offence where he/she does not apply customer

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193 Section 18 of the Terrorism Act 2000.
194 Arun Srivastava, Mark Simpson & Nina Moffatt op cit note 5 at 83.
195 Ibid.
196 Ibid.
197 Ibid.
198 Ibid.
199 Ibid.
200 Ibid.
201 Ibid.
202 Ibid.
due diligence measures, preserve transaction records and fails to provide employees with adequate money laundering control training.203

The MLR imposes five main duties or obligations on firms and importantly legally enshrines the concept of a ‘risk-based approach’.204 Briefly, these main requirements are:

- Customer due diligence measures – Firms have a duty to carry out customer due diligence measures on a risk-sensitive basis. These measures must involve the identification and verification of customers and beneficial owners. Firms must also obtain information regarding the intended nature and purpose of the business relationship.

- Internal policies and procedures – Firms must develop and uphold sufficient and suitable procedures and policies to mitigate money laundering risks.

- Record keeping – Firms must make and retain records of their customer due diligence measures and transactions carried out by the firm, as evidence that they have complied with their legal and regulatory obligations.

- Suspicious transaction and reporting procedures – Firms must ensure that suspicious transactions are identified and reported to the firm’s MLRO, who may report the incident.

- Education and training to employees – Firms must ensure that employees are adequately trained to identify suspicious transactions and that they are aware of the firm’s money laundering risks.205

The offences under PCA apply to all persons.206 The MLR, on the other hand, are limited in scope, applying only to persons engaged in certain types of activities.207 The rationale for this is that the

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203Ibid.
204Arun Srivastava, Mark Simpson & Nina Moffatt op cit note 5 at 103.
205Ibid.
206Ibid.
207Ibid.
specified sectors are more likely to be involved in money laundering. The MLR apply to ‘relevant persons’:

(a) ‘Credit institutions;

(b) Financial institutions;

(c) Auditors, insolvency practitioners, external accountants and tax advisors;

(d) Independent legal professionals (when participating in financial or real property transactions concerning-

   i. The buying and selling of real property or business entities);

   ii. The managing of client money, securities or other assets;

   iii. The opening or management of bank, savings or securities or other assets;

   iv. The organisation of contributions necessary for the creation, operation or management of companies; or

   v. The creation, operation or management of trusts, companies and similar structures;

(e) Trust or company service providers (being persons who provide the following service to other:

   i. Forming companies or other legal persons;

   ii. Acting or arranging for another person to act as a director-secretary of a company, a partner of a partnership, or similar position for other legal persons;

   iii. Proving a registered office, business address, correspondence or administrative address or other related services for a company partnership or any other legal person or arrangement;

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208Ibid.
iv. Acting, or arranging for another person to act as a trustee of an express trust or similar legal arrangement; or a nominee shareholder for a person other than a company whose securities are admitted to trading on a regulated market.

(f) Estate agents;

(g) High value dealers being a firm or sole trader who by way of business trades in goods (including auctioneers), who accept cash payments, in respect of any transaction, of €15,000 or more (whether the transaction is executed in a single operation or in a series of operations that appear to be linked);

and

(h) Casinos, being the holder of a casino operating licence.\(^{209}\)

It is a criminal offence not to comply with MLR requirements and carries a fine or 2 years’ imprisonment and it is not a requirement to have committed any money laundering.\(^{210}\) It is also important to understand that in practice, an offence may also be committed by a director of the company or partner of the partnership.\(^{211}\)

Failure to comply with the requirements of the MLR may also give rise to civil penalties imposed by the relevant supervisory authorities.\(^{212}\)

3.5 Authorities

The UK has a large number of competent authorities that tackle money laundering.\(^{213}\) This includes HM Treasury, Home Office, Foreign and Commonwealth Office and various other bodies.\(^{214}\) HM Treasury is the leading AML primary authority in the UK and it is responsible for the execution of the Money Laundering Directives and the UN’s financial sanctions regime; it is the UK’s representative at the FATF and it sanctions the industry guidelines on compliance with money laundering.

\(^{209}\) Regulation 3 of the Money Laundering Regulations 2007.
\(^{210}\) Regulation 45 of the Money Laundering Regulations 2007.
\(^{211}\) Regulation 47 of the Money Laundering Regulations 2007.
\(^{212}\) Regulation 42 of the Money Laundering Regulations 2007.
\(^{213}\) Nicholas Ryder op cit note 27 at 78.
\(^{214}\) Ibid.
The objective of HM Treasury is to develop tools in order to detect, disrupt and deter threats and crimes against the financial system.\textsuperscript{216}

3.6 Conclusion

The UK has adopted progressive stances towards combating money laundering.\textsuperscript{217} It has implemented all the international legal AML instruments emanating from both the UN and EU and in many instances its provisions have exceeded the international benchmarks.\textsuperscript{218} The Proceeds of Crime Act 2002 introduced a new era in the UK towards the criminalisation of money laundering; a single codified law.\textsuperscript{219} The ambit of the offences is extremely wide and meets the benchmarks of the FATF and the international measures of the UN and EU.\textsuperscript{220} Harvey noted that ‘the UK is particularly assiduous in the application of its anti-money laundering systems and procedures and has been identified as the greatest devotee of anti-money laundering provisions within the European Union’.\textsuperscript{221} The US State Department considers the UK to be a major money laundering country, which is defined by the Foreign Assistance Act 1961 as one ‘whose financial institutions engage in currency transactions involving significant amounts of proceeds from international narcotics trafficking’.\textsuperscript{222} Harvey thus recommends that the UK should persist with its efforts to provide assistance to countries with promising or developing AML frame works and its vigorous involvement in international fora.\textsuperscript{223} South Africa on the other hand, seems to have only done the bare minimum to implement international legal AML instruments and is still lacking in this field. South Africa needs to adopt a similar progressive and aggressive stance as that of the UK towards money laundering by forming an inter-agency mechanism dedicated to national AML policy making.

\textsuperscript{215}Nicholas Ryder op cit note 27 at 79.
\textsuperscript{216}Ibid.
\textsuperscript{217}Nicholas Ryder op cit note 27 at 99.
\textsuperscript{218}Ibid.
\textsuperscript{219}Ibid.
\textsuperscript{220}Ibid.
\textsuperscript{222}Ibid.
\textsuperscript{223}Ibid.
Chapter Four Global anti-money laundering framework

4.1 Introduction

Money laundering poses a significant threat to the stability of the global financial markets, national security and business around the world.\(^{224}\) It can be described as a cancer that undermines the financial integrity of jurisdictions, allowing organised criminals to enjoy the profits of their illegal activities.\(^{225}\) Synchronised international action to combat money laundering first originated in the 1980s within the framework of international efforts against drug trafficking, when a high priority was afforded to law enforcement tactics designed to unsettle the management and organisation and halt the economic power of key trafficking networks.\(^{226}\) Money laundering was pushed to the summit of the international community’s financial crime agenda in the 1980s, partly due to the renaissance of the US-led ‘war on drugs’ in the 1970s.\(^{227}\) The International Monetary Fund and the Financial Action Task Force have estimated that the scale of money laundering transactions is between 2 and 5% of global GDP.\(^{228}\)

The global AML framework is not only desirable but is also an imperative to ensure a coordinated and robust implementation of internationally agreed AML standards on a forward-looking basis.\(^{229}\) It is internationally accepted that this framework is necessary in order to prevent criminal organisations from mistreating the financial system as well as to overcome weaknesses in the AML laws of individual countries.\(^{230}\)

The global AML framework includes but is not limited to the following regimes: the Vienna Convention of 1988; the FATF; the Council of Europe; and the Basel Committee under the auspices of the Bank of International Settlement.\(^{231}\) The global AML regime is based on two important principles, prevention and enforcement, and administered at three levels: national,

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\(^{224}\) Nicholas Ryder op cit note 27 at 8.  
\(^{225}\) Ibid.  
\(^{226}\) Arun Srivastava, Mark Simpson & Nina Moffatt op cit note 5 at 237.  
\(^{227}\) Nicholas Ryder op cit note 27 at 9.  
\(^{229}\) Ibid.  
\(^{230}\) Ibid.  
\(^{231}\) Norman Mugarura op cit note 11 at 61.
regional and international. In 2001, the UN Security Council adopted nine Special Resolutions on Countering the Financing of Terrorism, calling on member countries to implement them in combating money laundering and the financing of terrorism.

4.2 The United Nations Convention Against Illicit Traffic in Narcotic Drugs and other Psychotropic Substances 1988 (Vienna Convention)

The Vienna Convention is the first binding multilateral agreement containing methods against money laundering intended to support collaboration between signatories so that drug trafficking could be more efficiently combated. The worry over drug abuse expressed by delegates from many national governments at General Assembly Resolutions led to the adoption of the 34 article Vienna Convention in 1988. It was internationally recognised that the authorities require tools to challenge the financial abilities of drug trafficking organisations, and that international cooperation must be a vital part of this objective. The treaty offers a meticulous definition of the detailed elements that comprise trafficking in drugs and other related drug substances.

The Vienna Convention creates an anti-money laundering framework on a wide array of matters, such as: the necessary interstate cooperation, together with mutual legal assistance and extradition arrangements; enforcement mechanisms, together with stripping criminals of the incomes realised from money laundering and other predicate crimes; and the definition and characterisation of the offence. Governments are obliged to comply with obligations created by the treaty because of the international law principle of *pacta sunt servanda*.

Article 3(1) of the Vienna Convention requires signatories to pass legislation necessary to create a current code of criminal offences concerning illicit trafficking in all its diverse forms and to establish money laundering as a criminal offence in its domestic law. The Vienna Convention only discusses money laundering indirectly as conduct that amounts to money laundering crime.

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232 Nicholas Ryder op cit note 27 at 10.
233 Norman Mugarura op cit note 11 at 61.
234 Izelde Louise van Jaarsveld op cit note 147 at 238.
235 Norman Mugarura op cit note 11 at 64.
236 Ibid.
237 Norman Mugarura op cit note 11 at 65.
238 Ibid.
240 Ibid.
241 Izelde Louise van Jaarsveld op cit note 147 at 239.
The transfer or conversion of property whilst knowing that it derives from criminal activity, or concealment of the property’s exact source and/or nature is therefore criminalised by signatories. Article 3 is very substantial because by creating the limitations for treating and criminalising money laundering as a serious offence, Mugarura points out that the drafters confirmed that cooperation in respect of extradition, confiscation and mutual legal assistance would be imminent.

The Convention recognises the indispensability of domestic courts and permits each state party’s relevant authorities to order that commercial or financial records be made available before the judge for inspection under Article 5(3). No party shall refuse to comply under the provisions of this article on the grounds of bank secrecy. In terms of Article 5(6), proceeds resulting from illegal trafficking cannot escape forfeiture simply because their form has been changed or they have been mixed with other property.

Article 7 of the Vienna Convention highlights important elements for effective mutual legal assistance and has been described as a ‘miniature legal assistance treaty’ because it focuses not so much on procedural detail. Requests for assistance are subject to the national law of the requested state party, yet the latter may not refuse a request on the basis of its bank confidentiality laws, a provision that is essential to the attainment of money laundering control. A request for mutual legal assistance, however, may be postponed or refused on the basis that it interferes with an on-going investigation. In contrast to article 7 which formally provides for mutual legal assistance, article 9 makes an informal mechanism for mutual assistance and training. This process entails, inter alia, that parties establish ways to ensure cooperation as regards requests for information and coordination towards establishing training programmes.

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242 Ibid.
243 Norman Mugarura op cit note 11 at 66.
244 Norman Mugarura op cit note 11 at 67.
245 Ibid.
246 Ibid.
247 Izelde Louise van Jaarsveld op cit note 147 at 239.
248 Ibid.
249 Ibid.
250 Ibid.
251 Ibid.
Though the Vienna Convention was the leading anti-money laundering framework adopted, it has now been superseded by the Parlemo Convention 2000.252

4.3 UN Convention Against Transnational Organised Crime 2000 (Palermo Convention)

The Parlemo Convention 2000 is the most vital anti organised crime initiative since 1988.253 This is because it concerns the prosecution and prevention of several offences as regards organised crime together with money laundering.254 The fact that the list of criminal activity that constitutes an issue of international concern increased dramatically resulted in the commencement of the Palermo Convention.255 Organised crime in specific was acknowledged as a cause for concern by the international parties.256 Consequently, in 1994 the World Ministerial Conference on Organised Crime formulated an action plan against transnational organised crime, emphasising both the need for assistance to countries in drafting legislation for improved international assistance and knowledge about organised crime.257 On 15 November 2000 the Palermo Convention was finally adopted by the UN General Assembly.258

The aim of the Palermo Convention is to encourage international cooperation in an effort to combat and prevent international organised crime, together with the availability of the profits of crime, more efficiently.259 It applies to the investigation, prosecution and prevention of transnational offences by organised crime parties.

The Palermo Convention compels parties to cooperate closely in tracking suspects involved in money laundering, or tracing the benefits of crime.260 The international community realised that national legislation is needed to implement the provisions of the Palermo Convention.261

252 Norman Mugarura op cit note 11 at 69.
254 article 3(a)(i)—(v), article 3(b)—(c) of the UN Convention against Transnational Organised Crime.
255 Izelde Louise van Jaarsveld op cit note 147 at 243.
256 Ibid.
259 Ibid.
260 Article 9(1) of the UN Convention against Transnational Organised Crime.
261 Izelde Louise van Jaarsveld op cit note 147 at 244.
Therefore, parties were obliged to use existing regional and multilateral organisational rules and establish a national regime.\textsuperscript{262}

It creates modalities on matters such as mutual legal assistance on civil and criminal matters, extradition, conducting joint investigations and transfer of proceedings.\textsuperscript{263} State parties are obliged to provide the necessary technical support to developing countries so that they are able to take measures to deal with large-scale organised crimes.\textsuperscript{264} The EU responded by issuing Directives to transpose its international obligations following the adoption of international conventions such as the Palermo Convention.\textsuperscript{265}

4.4 The European Anti-Money Laundering Directives

Europe has long been at the forefront of combating money laundering, as confirmed by its early enterprise by the Council of Europe.\textsuperscript{266} The Council of Europe Convention in 1990 was to adopt a framework for harmonisation of policy and practice on money laundering, seizure, confiscating and tracing of the profits of crimes within EU Member States.\textsuperscript{267} The EU consequently issued three Money Laundering Directives (1991, 2001 and 2005) to bring a certain degree of harmonisation of the money laundering laws within its Member States.\textsuperscript{268} The European Anti-Money Laundering Directives are also adopted to bring EU law into line with its international obligations, such as FATF recommendations on AML.\textsuperscript{269}

The European Council adopted a money laundering directive\textsuperscript{270} on the prevention of the use of the financial system for the purpose of money laundering when the FATF issued its first Forty Recommendations.\textsuperscript{271} The 1991 Directive was intended to legitimise the Forty Recommendations of the FATF in the EU, as discussed in more detail in paragraph 4.5 below.\textsuperscript{272} The 1991 Directive

\begin{footnotes}
\item[262] Article 7(3) of the UN Convention against Transnational Organised Crime.
\item[263] Norman Mugarura op cit note 11 at 71.
\item[264] Articles 16-30 of the UN Convention against Transnational Organised Crime.
\item[265] Norman Mugarura op cit note 11 at 71.
\item[267] Norman Mugarura op cit note 11 at 71.
\item[268] Ibid.
\item[269] Ibid.
\item[271] Izelede Louise van Jaarsveld op cit note 147 at 244.
\item[272] Ibid.
\end{footnotes}
contained four key features, namely, criminalisation of conduct that constituted money laundering, adequate retention of account records, international cooperation aimed at combating money laundering and proper customer identification.\textsuperscript{273}

The Second European Directive\textsuperscript{274} took the form of amendments to the First Directive, the Commission realising that it should modernise the instrument’s AML provisions.\textsuperscript{275} Definitions of criminal activity and money laundering were extended to include all kinds of serious crime.\textsuperscript{276} Parties were required to confirm that obligations were enforced on, among others, independent legal professionals and notaries when they assist in the execution or planning of any activities which constitute money laundering.\textsuperscript{277}

The Third Anti-Money Laundering Directive\textsuperscript{278} had a very broad mandate, not least extending its remit regarding lawyers to include money used for the financing of terrorism.\textsuperscript{279} It also introduced a risk-based approach to customer due diligence, creating a dual reporting regime for low-risk clients and enhanced due diligence in situations regarded as being likely to be used for money laundering.\textsuperscript{280} The EU anti-money laundering counter-measures have been emboldened by the Third Anti-Money Laundering Directive, which consolidates the earlier Directives on the same issue.\textsuperscript{281} In particular, the revision was designed to extend the scope of predicate offences, providing guidance on customer identification requirements, which now take place on the basis of a risk-based approach, taking into account categories of individuals such as politically exposed persons and misuse of corporate vehicles.\textsuperscript{282}

\textbf{4.5 The FATF}

\textsuperscript{273} Article 2–4, 8 of the 1991 Directive.
\textsuperscript{276} Article 1(c) of the 2001 Directive.
\textsuperscript{277} 2001 Directive Preamble Recitals 14–17, article 2(A).
\textsuperscript{279} Norman Mugarura op cit note 11 at 73.
\textsuperscript{280} Ibid.
\textsuperscript{281} Norman Mugarura op cit note 11 at 78.
\textsuperscript{282} Ibid.
The most prominent intergovernmental agency on money laundering and the financing of terrorism is the FATF. The FATF is the only international body that specialises in strategies to control money laundering and was established by the G7 nations in July 1989 and its membership extends to 31 member countries. It is made up of 36 member states or territories and four affiliate regional organisations and maintains a small secretariat based at the offices of the Organisation for Economic Co-operation and Development in Paris. It is given the task of examining measures needed to combat money laundering, largely in recognition of the enormous extent of the drug problem, organized crime and money laundering. The FATF released a set of forty recommendations in April 1990 providing a framework for analysing and keeping abreast of money laundering trends, but also streamlines the Basel Committee anti-money laundering regimes. Annual mutual evaluations of members’ progress in employing the recommendations are conducted by the FATF and measures the compliance of other countries in combating money laundering.

The FATF issued a report encompassing an assessment of the money laundering problem and forty recommendations that created a strategy for countries to combat it. The Forty Recommendations is an endeavour to establish an AML regime with two components, namely:

- A national regulatory regime encompassing monitoring and reporting of cash transactions above a certain amount and suspicious activity reporting; and

- A network for international cooperation against money laundering that includes mutual assistance treaties and extradition as well as information dissemination.

Therefore, the FATF set a minimum criterion for an effective AML programme which is known as the Forty Recommendations. The original Forty Recommendations provide a wide set of measures to develop an AML system with universal application. They may be adopted by

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283 Norman Mugarura op cit note 11 at 269.
284 Izelde Louise van Jaarsveld op cit note 147 at 609.
285 Ibid.
286 Norman Mugarura op cit note 11 at 79.
287 Norman Mugarura op cit note 11 at 80.
288 Izelde Louise van Jaarsveld op cit note 147 at 224.
289 FATF Forty Recommendations 1990.
290 Williams op cit note 280 at 21.
291 Izelde Louise van Jaarsveld op cit note 147 at 224.
292 Ibid.
countries with different legal systems and are flexible.\textsuperscript{293} The FATF placed importance on countries establishing first a standard AML framework before attempting to implement more advanced measures.\textsuperscript{294}

The Forty Recommendations are separated into four key groups whose recommendations fell into three categories, namely, first, legal recommendations explaining what law-making bodies must do to establish a legal framework to combat money laundering, secondly, financial regulatory recommendations that provide a framework for how countries should regulate their financial systems and thirdly, international cooperation recommendations that clarify how governments should facilitate cooperation among one another.\textsuperscript{295}

The FATF released an additional eight special recommendations aimed at combating terrorist financing following the September 2001 terrorist attacks on the US.\textsuperscript{296} The Special Recommendations advise ratification of the UN’ money laundering and terrorist related instruments, criminalisation of terrorist acts, organisations and financing, freezing and confiscation of terrorist assets, reporting of suspicious transactions relating to terrorism, international cooperation, alternative remittance services, electronic fund transfers and the prevention of non-profit organisations for terrorist purposes.\textsuperscript{297}

A formal review of the revised Recommendations took place in 2001 when consensus was reached that the FATF should focus more on the subject of suspicious transaction reporting.\textsuperscript{298} Consequently, an improved form of the revised Recommendations was adopted in 2003 to inform banks about new money laundering matters.\textsuperscript{299} The Forty Revised Recommendations are structured as follows: legal systems (Revised Recommendations 1 to 3), measures to be taken by banks to prevent money laundering and terrorist financing (Revised Recommendations 4 to 25), other measures necessary in systems for combating money laundering and terrorist financing

\begin{flushright}
\textsuperscript{293} Ibid.
\textsuperscript{294} Ibid.
\textsuperscript{295} Ibid.
\textsuperscript{296} FATF \textit{Eight Special Recommendations 2001} Annex 152 A Preamble; Lilley \textit{Dirty Dealing} 150–152.
\textsuperscript{297} Ibid.
\textsuperscript{299} Ibid.
\end{flushright}
(Revised Recommendations 26 to 34) and international cooperation (Revised Recommendations 35 to 40).300

4.6 The Wolfsberg Group

The Wolfsberg Group is an association of 11 international banks whose mandate includes developing financial services industry standards and related products for KYC and AML/CFT policies.301 The Group was established in 2000, at the Château Wolfsberg in north-eastern Switzerland, in the company of representatives from Transparency International whilst working on drafting anti-money laundering guidelines for private banking.302 The group published a series of papers on financing of terrorism as well as on anti-money laundering principles for correspondent banking and the Wolfsberg Statement on Monitoring Screening and Searching.303 The Wolfsberg Group’s principles for private banking are an important element of global efforts to fight money laundering.304 This is because the Wolfsberg Group secured the commitment of private banks, which are one of the newest target of criminals for laundering the benefits of crime.305 The Code of the Wolfsberg Group comprises 11 principles that are ‘appropriate for private banking relationships.’306 Included are rules on customer acceptance and a list of additional scenarios where enhanced due diligence is advised when, for example, conducting business with a customer connected with high risk countries, or who is a ‘politically exposed person.’307

4.7 The Egmont Group

The Egmont Group of Financial Intelligence Units of the World, established in 1995, is an FATF-affiliated organisation comprising of 106 FIUs.308 Money laundering is an international issue that renders the work of the Egmont Group critical because a FIU can operate as a ‘filter’ between law

300 Ibid.
301 Norman Mugarura op cit note 11 at 91.
302 Izelde Louise van Jaarsveld op cit note 147 at 248.
303 Norman Mugarura op cit note 11 at 91.
305 Izelde Louise van Jaarsveld op cit note 147 at 248.
306 Ibid.
307 Ibid.
308 Izelde Louise van Jaarsveld op cit note 147 at 249.
enforcement and banks.\textsuperscript{309} An FIU assists in detecting patterns among large numbers of suspicious and complex transactions since it provides a gathering point for analysing information.\textsuperscript{310}

4.8 The World Bank and the International Monetary Fund

The IMF and the World Bank commence various programmes that summarise stimulating stronger economic, legal and financial systems internationally.\textsuperscript{311} The IMF accepted in 2001 that money laundering posed a danger to both the good governance of banks and the international financial system.\textsuperscript{312} Since then the IMF has added to the battle against money laundering in three ways.\textsuperscript{313} First, it applies its experience by assisting the FATF in its reviews and conducts financial sector assessments and,\textsuperscript{314} secondly, the IMF in partnership with the World Bank conducts studies as regards the nature of money laundering in an effort to help with collecting information about the crime.\textsuperscript{315} Thirdly, it provides technical support to its members to strengthen national supervisory frameworks.\textsuperscript{316}

4.9 Conclusion

The global AML framework is an essential weapon used to inhibit criminals from mistreating the global financial system and serves as a tool to overcome flaws in the AML framework of individual countries.\textsuperscript{317} The global AML framework enhances cooperation between countries and transcends the limitations of territorial boundaries that criminals wish to exploit.\textsuperscript{318} The benefits of the Global AML framework provide developing countries with resources such as the ability to share information on the fight against organised crime.\textsuperscript{319} It is however suspected that South Africa and other developing countries’ socio-economic realities may be in conflict with the global AML framework.\textsuperscript{320} It is important to note the context of developing countries’ socio-economic

\textsuperscript{309} Carrington \textit{Rule of Law} 13; Verhelst \textit{Financial Intelligence Units} 415.
\textsuperscript{310} Ibid.
\textsuperscript{311} Rhys Bollen \textit{The International Financial System and Future Global Regulation} Journal of International Banking Law, 200
\textsuperscript{312} IMF \textit{Money Laundering} 1.
\textsuperscript{313} Ibid.
\textsuperscript{314} Ibid.
\textsuperscript{315} Ibid.
\textsuperscript{316} Ibid.
\textsuperscript{317} Ibid.
\textsuperscript{318} Norman Mugarura op cit note 15 at 205.
\textsuperscript{319} Ibid.
\textsuperscript{320} Ibid.
conditions of underdevelopment, which are different to those of developed countries such as the US and the UK. The challenges faced by less developed countries are further compounded by a lack of institutional and structural capacity to harness global AML standards locally which have in turn translated into an environment conducive to criminal exploitation, while diminishing the same state’s capacity to counteract new challenges, such as money laundering.\(^\text{321}\)

\(^{321}\) Norman Mugarura op cit note 15 at 61.
Chapter Five    Conclusion and Recommendations

In Chapter 1, it was stated that the objective of this study is to determine whether the AML framework in South Africa is sufficient in combating money laundering. In addition, this study seeks to address the shortcomings of the AML framework in South Africa, highlight certain areas for improvement in comparison to the UK AML framework and indicate the need for further incorporation of the global AML framework into the AML framework in South Africa. Given the fact that money laundering can serve to create a smokescreen for financing of various activities that not only are criminal in nature but that can also threaten lives and can sweep across borders it has been recognised globally that mechanisms have to be put in place to prevent money laundering as a conduit for criminal activity. An effective AML framework is thus not only necessary but is essential for South Africa to combat money laundering. It is hoped that the findings of this study will aid the South African AML authorities and other countries facing similar issues to pursue further research on some of the issues arising from this study with the aim of developing an effective AML framework for combatting money laundering.

In Chapter 2 we discussed the South African AML framework. We focused on three main pieces of legislation; POCA, FICA and POCDATARA, the regulations and the institutions that play a major role in the implementation and enforcement of the AML framework. We noted that South Africa has made significant progress in improving its AML framework, that South Africa has a fairly strong AML framework, is not listed as one of the countries by the FATF as having strategic AML shortcomings and that South Africa’s criminalisation of money laundering and criminal confiscation has been deemed to be in line with international standards. The IMF has also noted that the FIC is operating efficiently as the country’s financial intelligence unit. In addition, we found that with the advent of FICA and its interaction with the provisions of the POCA it appears that South Africa’s legislative endeavours are in accordance with global standards, as recommended by the Palermo Convention. However, it is suspected that South Africa has abided

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322 International Monetary Fund op cit note 2 at 9.
323 Ibid.
324 Charles Goredema, Prine Bagenda, Louis De Koker, Bothwell Fundira, Ray Goba & George Kegoro op cit note 44 at 83
by AML policies in order to depict a fantasy of tackling corruption and money laundering. The mere existence of legislation against money laundering is not a guarantee of its adequacy or effectiveness against money laundering. Enforcement of the FICA requires training, experienced personnel and appropriate equipment in order to ensure compliance with the obligations imposed by the Act. South Africa needs to increase available resources and institutional and structural capacity in order to combat money laundering and ultimately seek solutions to overcome the challenges it faces as a developing country.

In Chapter 3, we found that the UK has adopted a progressive and aggressive stance towards combating money laundering which pre-dates the measures introduced by the international community. It has implemented all the international legal AML instruments emanating from the UN and EU and in many instances, its provisions have exceeded the international benchmarks. We observed that HM Treasury, the UK’s finance department, leads the war against money laundering and is responsible for the UK’s AML strategy. That HM Treasury has in recent years aggressively developed the UK’s AML framework which surpasses the recommendations made by FATF and the three European Money Laundering Directives. South Africa on the other hand, seems to have only done the bare minimum to implement international Legal AML instruments and is still lacking in this field. South Africa needs to adopt a similar progressive and aggressive stance as that of the UK towards money laundering by forming an inter-agency mechanism dedicated to national AML policy making.

In Chapter 4 we examined the global AML framework and noted that the global AML framework is not only desirable but is also an imperative to ensure a coordinated and robust implementation of internationally agreed AML standards on a forward-looking basis. That it is internationally accepted that this framework is necessary in order to prevent criminal organisations from abusing the financial system as well as to overcome weaknesses in the AML laws of individual countries. We observed that South Africa’s AML framework is largely in line with International standards

325 Art Garffer op cit note 5.
326 Arun Srivastava, Mark Simpson & Nina op cit note 5 at 1199.
327 Ibid.
328 Ibid.
329 Ibid.
330 Ibid.
331 Ibid.
and according to the last Mutual Evaluation Report undertaken by the FATF in 2009, South Africa was deemed compliant for nine and largely compliant for fourteen of the FATF 40 + 9 Recommendations, and partially compliant or non-Compliant for two of the six Core Recommendations. It is however suspected that South Africa and other developing countries’ socio-economic realities may be in conflict with the global AML framework. It is important to note the context of developing countries’ socio-economic conditions of underdevelopment, which are different to those of developed countries such as the US and the UK. That attempts made by less developed countries towards implementing the global AML framework are disrupted by various factors, such as deficient economic and social infrastructure, limited resources and corruption. The challenges faced by less developed countries are further compounded by a lack of institutional and structural capacity to harness global AML standards locally which have in turn translated into an environment conducive to criminal exploitation, while diminishing the same states’ capacity to counteract new challenges, such as money laundering.

This is a possible issue for further research. In light of the FATF’s current schedule of mutual evaluations, South Africa is expected to undergo a comprehensive assessment against the recently revised standard and methodology after 2017. It is essential for South Africa to critically examine its AML framework and address remaining deficiencies to bring it in line with the global AML framework.

The International Monetary Fund, based on its 2014 Financial Sector Assessment Program for South Africa, made the following key recommendations in the areas of anti-money laundering:

- ‘South Africa needs to conduct a national assessment of money laundering risks in an inclusive and cooperative manner.

- Require financial institutions including banks to identify and verify the identity of beneficial owners in line with the standard.

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333 Norman Mugarura op cit note 15 at 61.
334 Ibid.
335 The FATF revised the AML/CFT standard in 2012, and the assessment methodology in 2013. The latter places greater focus on assessing the effectiveness of countries in identifying, managing, and mitigating the money laundering and financing of terrorism risks they confront.
336 International Monetary Fund op cit note 2 at 7.
• Provide more guidance to banks and set reasonable and clear supervisory expectations to facilitate the application of a risk-based approach to AML preventive measures.

• Ensure that accurate beneficial ownership information of legal persons can be accessed by the competent authorities in a timely manner.

• Enhance capacity (in particular in terms of specialized AML knowledge) within the law enforcement and prosecutorial agencies to enable them to pursue complex money laundering cases.\(^{337}\)

In order to address remaining deficiencies in the South African AML framework, the FIC has taken the initiative to review the current legislative framework with the aim of bringing South Africa’s legal framework in line with international standards set by the FATF. The Financial Intelligence Centre Amendment Bill is one initiative in the review process and is expected to address remaining legal deficiencies in AML preventive measures, strengthen supervision of the financial sector, and introduce an RBA to AML preventive measures. The Bill was introduced in the National Assembly on 27 October 2015 and has been approved by both Houses of Parliament.\(^{338}\) Parliament has referred the Bill to the President for assent and signature.\(^{339}\)

The FIC advises that the amendments will widen the application of the Act by including additional categories of institutions and businesses under its scope; improve the Centre’s ability to obtain information concerning the identities and financial activities of customers of a wider range of financial and other institutions; and improve the Centre’s ability to produce high-quality analysis for law enforcement and security agencies, as well as to supervisory bodies and policy formulating entities.\(^{340}\)

The FIC proposes to include the following in Schedule 1 of the FIC Act, based on the view that these institutions may present a higher risk of being used to carry out money laundering activities:

• ‘Professional accountants

\(^{337}\) International Monetary Fund op cit note 2 at 11.


\(^{339}\) Ibid.

\(^{340}\) Ibid.
• Persons who provide trust and/or company services
• Dealers in high value goods (including, amongst others, precious metals and stones, motor vehicles and coins)
• Co-operatives which provide financial services, as defined in the Co-operatives Banks Act, 2007 (Act 40 of 2007)
• Short-term insurers as defined in the Short-Term Insurance Act, 1998 (Act 53 of 1998)
• Credit providers who are required to register as contemplated in section 40 of the National Credit Act, 2005 (Act 34 of 2005)
• Money or value transfer providers
• Providers of private security boxes or security vaults for the safekeeping of valuables
• Auctioneers, including sheriffs, as defined in the Sheriff’s Act, 1986 (Act 90 of 1986) when performing the job of an auctioneer at a public auction
• Dealers in copper material
• Virtual currency exchanges where virtual currency is bought and sold for fiat currency (money that government has declared to be legal tender).\textsuperscript{341}

The FIC Act amendments further seek to address regulatory gaps and enable compliance with best practice; strengthen customer due diligence measures, particularly relating to beneficial ownership and persons in prominent positions; introduce a flexible risk-based approach to identifying and verifying customers thus reducing the burden on customers; and improved sharing of information among designated entities and enhancing co-ordination and crime-fighting capabilities.\textsuperscript{342}

The introduction of a risk-based approach is an important change to the FIC Act which gives institutions the flexibility to assess and manage the risks in their businesses, depending on the category of customer.\textsuperscript{343} The institutions will seek to understand their customers and scrutinise the

\textsuperscript{341} Ibid.
\textsuperscript{343} Ibid.
way they use their products or services, making it easier to recognise inconsistent behaviour, going beyond basic know-your-customer requirements to establish and verify their clients’ identities.\textsuperscript{344}

The concept of beneficial ownership will require institutions to know the people behind their companies – those who benefit financially – and this will bring greater transparency to the financial system.\textsuperscript{345} It will place a duty on institutions to take reasonable measures to determine the identity of beneficial owners. This requirement brings South Africa in line with current global standards.\textsuperscript{346}

In accordance with global standards, institutions should pay close attention to their politically exposed customers – people in prominent positions in the public sector.\textsuperscript{347} The FIC Act amendments have adopted this measure and broadened its scope to include the application of additional customer due diligence to prominent influential persons such as politically exposed customers and those in the private sector who do business with government.\textsuperscript{348}

In addition, the Amendment Bill establishes a legal framework for applying and administering financial sanctions emanating from UN Security Council Resolutions which aims to fulfil South Africa’s obligations as a UN member state and bring its legislation in line with international standards.\textsuperscript{349}

It is yet to be seen if the amendments to the FIC Act will effectively combat money laundering. South Africa has a comprehensive AML framework and have harnessed the global AML framework as seen through the proposed amendments. It estimated that between $2 and $8 billion is laundered through South African financial institutions each year.\textsuperscript{350} The challenge that South Africa faces is to implement the AML framework effectively. South Africa is a country that is highly susceptible to money laundering as a result of its financial system being the major financial center in the African region and it is clear that South Africa will need to rely on the available international expertise in money laundering from countries such as the UK. However, South Africa faces many challenges which are foreign to developed economies, for instance those in respect of the abuse of its informal economy by launderers. South Africa thus needs to adopt an aggressive

\textsuperscript{344} Ibid.  
\textsuperscript{345} Ibid.  
\textsuperscript{346} Ibid.  
\textsuperscript{347} Ibid.  
\textsuperscript{348} Ibid.  
\textsuperscript{349} Ibid.  
\textsuperscript{350} Art Garffer op cit note 5.
stance towards money laundering. It is accordingly submitted that South Africa needs to go beyond the international standards and implement and formulate its own legislation which is tailored towards its own unique challenges.
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