Exchange Control Department

2010-02-17

Exchange Control Circular No. 5/2010

Statement on Exchange Control

The attention of Authorised Dealers is drawn to the further exchange control reforms announced by the Minister of Finance in the 2010 Budget, a copy of an extract of which is attached for ease of reference.

A number of Circulars, in amplification of the aforegoing, have also been issued today.

Head of Department

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Exchange control reform: strengthening financial stability and prudential regulation

The 2009 *Medium Term Budget Policy Statement* reinforced government's intention to lower the cost of doing business in South Africa, while managing risks in a volatile international environment.

In the wake of the global financial crisis, the broad strategy remains prudential management of foreign exposure risk, along with improved management of capital flows, and maintaining macroeconomic and financial stability. In keeping with this stance, South Africa will implement relevant financial regulatory reforms in line with G-20 recommendations. These include better management of the foreign risk exposure of banks and institutional investors. Government announces the following steps:

Prudential foreign exposure limits

Government has finalised reporting measures for prudential foreign exposure limits on banks. These measures will liberalise exchange controls for these institutions. As of 1 March 2010, South African banks will be able to acquire direct and indirect foreign exposure up to 25 percent of their total liabilities (excluding equity), covering all foreign exposure but excluding FDI. The initial limit of 40 per cent has been adjusted downwards in light of recent international developments.

Research is under way to complete the move from rules-based to principles-based regulation of foreign exposure for institutional investors, and to finalise the definition of "foreign asset" that captures the underlying risks. The National Treasury will undertake consultation on these matters during 2010. For now, the existing inward listing policy and definition of foreign asset for companies – which is based on place of incorporation and/or primary listing – remain in place.

Reforming exchange control legislation

The National Treasury will release a framework document on reforming exchange control legislation. Preparatory work in this area will also inform a modernised approach to policy on inward and outward investment. The National Treasury will initiate public consultation on these reforms.

Gateway into Africa

Appropriately mandated private equity funds meeting certain criteria will be able to obtain upfront approval from the Reserve Bank for investments in Africa for up to one year.

Technical amendments to regulation 28

Regulation 28 of the Pension Funds Act (1956) limits the amount and extent to which private pension funds may invest in certain asset categories. Technical amendments that cover a range of matters, including incentives to invest in Africa, will be released for public comment.

Further details concerning the above measures will be provided by the National Treasury or the Reserve Bank.