

D.1 Forward cover or hedging transactions between Authorised Dealers and residents**(A) General**

- (i) The aim of hedging is either to offset or to minimise the risk of losses that an enterprise may be exposed to due to the effect of price changes on its assets, liabilities or future firm and ascertained commitments and/or accruals.
- (ii) Authorised Dealers must ensure that dealings in hedging instruments are not undertaken either for speculative purposes or as a means of circumventing the Regulations.
- (iii) Residents, excluding transactions by private individuals trading on online platforms may, however, subject to the conditions outlined in subsection (B)(i) below, hedge their foreign exchange risk in a controlled manner through the active management of their currency exposures in the over the counter foreign exchange market.
- (iv) This section of the Authorised Dealer Manual is concerned with the multiplicity of over the counter hedging instruments and techniques which are divided into the following main categories:
 - (a) forward contracts;
 - (b) futures contracts (excluding currency futures listed on a regulated exchange in South Africa);
 - (c) options;
 - (d) warrants; and
 - (e) swaps.
- (v) Applications for spot foreign currency by residents to cover future commitments or accruals should normally be refused unless permission has been granted elsewhere in the Authorised Dealer Manual. The applicants must be informed of the permissible cover contracts which are obtainable by means of the relevant hedging instruments.

(B) Foreign currency against Rand in respect of forward contracts or foreign exchange option contracts not exceeding six months to maturity (active currency management)

- (i) Foreign currency may be sold forward to or purchased forward from residents, excluding transactions by private individuals trading on online platforms, by either entering into a forward contract or a foreign exchange option contract with an Authorised Dealer, subject to the following conditions that:

- (a) The facilities are required to cover a direct underlying foreign currency exposure and to manage possible losses arising from adverse movements in foreign exchange rates from a transaction that is:
 - (aa) permissible in terms of the Authorised Dealer Manual;
 - (bb) in respect of a specific authority that has been granted by the Financial Surveillance Department; or
 - (cc) in respect of a resident party actively managing foreign exchange risk exposure, inter alia, in respect of import payments, export proceeds, service type payments/receipts, tenders, acquisitions, balance sheet risk and loans.
- (b) While cover may not be granted for a period extending beyond six months, contracts may be entered into and exited at the client's discretion and need not run until the commitment or accrual has to be met.
- (c) The same underlying commitment or accrual is not already covered forward.
- (d) In respect of all commitments or accruals, documentary evidence is exhibited at the time of pay away confirming the nature and extent of the commitment or that foreign currency is definitely accruing and the nature and extent of such accruals.
- (e) All settlements in terms of forward cover taken out by clients not resulting in the physical conversion of currency to and from Rand (i.e. the so called 'in between trades' must take place in Rand).
- (f) Authorised Dealers facilitating the 'in-between trades' must furnish the Financial Surveillance Department with the following reports on a monthly basis:
 - (aa) summary beneficial holdings trading report indicating volumes, value and ownership differentiating between the following investor classes: corporates, individuals, institutional investors and non-residents; and
 - (bb) a report depicting the forward rates applicable to each contract concluded, supported by parallel graphs of trading volumes, number of contracts and value, specifically highlighting the impact of the 'in-between trades' on the foreign exchange market and the exchange rate of the Rand.
- (g) The reports must be submitted by sending an e-mail to SARB-HEDGE@resbank.co.za, specifying the wording "Active Currency Management Report" in the subject field by the 7th of the

following month. The beneficial holdings trading report must only reflect the 'in-between trades' where the client does not convert Rand into foreign currency and vice versa in terms of the contract forward rate but decides to rather settle the contract in Rand. Therefore, the reporting must exclude legitimate settlements in Rand (e.g. export proceeds).

- (ii) Institutional investors, as defined in section B.2(H) of the Authorised Dealer Manual, must take cognisance that any position held as a result of entering into the 'in-between trades' is regarded as foreign exposure and must accordingly be marked off against their respective foreign portfolio investment allowances as well as being accounted for in the quarterly asset allocation reports.
- (iii) In respect of cover granted to local stockbrokers for foreign exchange transactions with non-residents on the JSE Limited, the period of such cover may not exceed 45 days from the date of the transaction as evidenced by brokers' notes.

(C) Foreign currency against rand in respect of forward contracts or foreign exchange option contracts exceeding periods longer than six months

- (i) Foreign currency may be sold forward to or purchased forward from residents by either entering into a forward contract or a foreign exchange option contract with an Authorised Dealer, subject to the following conditions that:
 - (a) The facilities are required to cover a firm and ascertained foreign exchange commitment due to a non-resident or a foreign exchange accrual due from and payable by a non-resident arising from a transaction either:
 - (aa) permissible in terms of the Authorised Dealer Manual; or
 - (bb) in respect of which a specific authority has been granted by the Financial Surveillance Department.
 - (b) While cover may not be granted for a period extending beyond the due date of the underlying commitment or accrual, contracts may be entered into at any time after the commencement of the commitment or accrual for the full amount or part thereof and, in the circumstances outlined in subsection (F) below, need not run until the commitment or accrual has to be met.
 - (c) The same underlying commitment or accrual is not already covered forward.
 - (d) In respect of imports, the nature and extent of the import commitment must be confirmed by any one of the documents

specified in section B.1(B) of the Authorised Dealer Manual or pro forma invoices, purchase orders, copies of import letters of credit or copies of order confirmations or, when such documents are not available, a letter signed by two responsible persons, whose names and titles should appear below their signatures, giving full details of the underlying commitment. The above letter, however, does not absolve the client from the requirements of (i) below.

- (e) In respect of the accrual of the proceeds of exports, the period of cover granted may not extend beyond six months from the date of shipment, except where the Authorised Dealer concerned or the Financial Surveillance Department has granted permission for such proceeds to be received after six months. In addition, cover may also be granted in respect of any pre-shipment period.
- (f) Where a dispensation has been granted by the Financial Surveillance Department to certain corporates from the requirement to submit documentary evidence for trade related foreign exchange transactions (the imports undertaking dispensation), such dispensation also applies when concluding forward or foreign exchange option contracts in respect of those transactions.
- (g) In respect of all other commitments or accruals, documentary evidence is exhibited confirming the nature and extent of that commitment or that foreign exchange is definitely accruing and the nature and extent of such accruals.
- (h) Where the required documentary evidence is not available at the time of establishment of a forward or foreign exchange option contract, such documentation be presented within 14 days.
- (i) All documentation submitted in evidence of the foreign exchange commitment or accrual in respect of which cover is availed of must indicate the contract number and the period of the contract. Furthermore, in respect of an import transaction where a letter has been submitted in terms of (d) above, the documents specified in section B.1(B) of the Authorised Dealer Manual or pro forma invoices, purchase orders, copies of import letters of credit or copies of order confirmations must subsequently be viewed.
- (j) Authorised Dealers may allow South African corporates to cover forward up to 75 per cent of budgeted import commitments or export accruals in respect of the following financial year, subject to the following conditions:
 - (aa) all matured sales contracts must relate to firm and ascertainable underlying commitments and the underlying documentation must be viewed at the time of settlement, in accordance with the provisions of sections B.1(B) and (F) of

the Authorised Dealer Manual;

- (bb) in respect of exports, all matured contracts must relate to firm and ascertainable underlying accruals and the requirements of section B.18 of the Authorised Dealer Manual must in each instance be adhered to;
 - (cc) under no circumstances may the contracts be used as a mechanism to speculate against the Rand;
 - (dd) proceeds of matured forward exchange sales contracts may only be credited to the applicant's CFC account in terms of the provisions of section E.(B)(ii)(ff) of the Authorised Dealer Manual; and
 - (ee) any unutilised portion of the contracts must be swapped in terms of the provisions of subsection (F) below. The Authorised Dealer(s) with whom the applicant company transacts must ensure that the conditions outlined above are strictly adhered to.
- (k) Authorised Dealers must be furnished with a written letter from their clients, signed by two senior officials, confirming that the above conditions were adhered to, together with a detailed schedule of utilisation to ensure compliance with the limit authorised, prior to considering a request for the next financial year.

(D) Foreign currency against foreign currency

- (i) Subject to the same conditions as set out in subsections (A), (B) and (C) above, Authorised Dealers may arrange cover on behalf of their clients in one foreign currency against another.

(E) Transactions between Authorised Dealers

- (i) Authorised Dealers may, in respect of permitted cover contracts, marry such contracts and deals with one another, either spot or forward in any currency.
- (ii) In addition, Authorised Dealers may establish contra contracts on overseas foreign exchange markets or take their forward position into their spot position.
- (iii) Authorised Dealers may also offset such risk through the South African Futures Exchange.

(F) Surrenders or extensions by means of swaps

- (i) Since forward or foreign exchange option contracts entered into in

terms of subsection (C) above may only be concluded for firm and ascertained foreign exchange commitments or accruals and constitute a binding agreement between the parties concerned, such contracts may not be annulled prior to the maturity date.

- (ii) Should circumstances arise in which it is required to vary the delivery date of a forward or foreign exchange option contract or part thereof, surrenders, early take-ups or extensions may be allowed, subject to settlement taking place by means of a counter contract or swap. Any profits or losses arising from such action should be regarded as being for account of the client and the rate applied to the extension of such contracts may under no circumstances be adjusted to incorporate the relative profit or loss.

(G) Hedging operations

- (i) Subject to the same conditions as set out in subsections (A), (C) and (E) above, Authorised Dealers may arrange cover with resident clients in respect of the risks mentioned below.
- (ii) Authorised Dealers are required to keep a register of all over the counter contracts traded and such register should be available at all times for inspection purposes by the Financial Surveillance Department.
- (iii) All trades must take place under International Swaps and Derivatives Association agreements with all individual trades being subsequently confirmed with a transaction form stating who the Granter (Seller) and Grantee (Purchaser) of the products are.
- (iv) Residents who wish to hedge directly with an offshore counterparty require the prior written approval of the Financial Surveillance Department.
- (v) Risks for which cover may be arranged with resident clients:
 - (a) Interest rates
 - (aa) Authorised Dealers may cover their clients' firm and ascertained exposure to possible losses as a result of adverse movements in interest rates arising from an underlying transaction.
 - (bb) Such an interest rate hedge may be arranged by way of a futures contract on fixed-income securities or time deposits, including forward rate agreements, an interest rate options contract or an interest rate swap. An interest rate hedge in any other form may only be entered into after the prior written approval of the Financial Surveillance Department has been obtained.

(b) Price risk

(aa) Commodities

- (1) Commodity futures and commodity option contracts with resident clients may be entered into, provided that they are quoted and traded on the JSE Limited.
- (2) The terms and conditions pertaining to dealings by non-residents on the JSE Limited are incorporated in their Rules and Regulations.

(bb) Metals

Precious and base metals, excluding gold, may be sold forward to or purchased forward from residents by either entering into a commodity futures contract or a commodity option contract with an Authorised Dealer.

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