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SOUTH AFRICAN RESERVE BANK

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## Record of proceedings of the South African Foreign Exchange Committee virtual meeting held on Wednesday, 1 June 2022, from 11:00 to 12:30

### Record of proceedings no. 02/2022

Members in attendance	Apologies
<p>Zafar Parker (Chairperson), SARB            Richard de Roos (Deputy Chairperson), Standard Bank            Lucy Mabuza (Secretariat of the SAFXC), SARB            Mpumi Ngwenya (Secretariat of the SAFXC), SARB            Chris Tsotsa (Secretariat of the SAFXC), SARB            Andries Tshishonga, SARB            Samantha Springfield, SARB            Lesego Malehopo, SARB            Chris Paizis (Authorised Dealer), ABSA Bank            Michael Galatis, ACI South Africa            Mark Schwartz, ACTSA            Gill Raine, ASISA            Gary Haylett, BASA            Steven Panos, Capitec Bank            Marius de Jongh (an observer), FSCA            Paul Wilson (Interdealer Broker), ICAP            Carlos Martins, SAATA</p>	<p>Brice Parise (Authorised Dealer), JP Morgan            Udesh Moodley (Exchange), JSE Limited</p>
<p><b>Invitee</b>            Richard Beddow, SAATA</p>	

## 1. Overview

The South African Foreign Exchange Committee (SAFXC) discussed the following:

- 1.1 presentation on the business processes and principles followed by tier-II banks when conducting FX transaction with intermediaries;
- 1.2 the SAFXC outreach programme; and
- 1.3 feedback from SAFXC members.

## 2. Summary of discussions

2.1 Presentation on the business processes and principles followed by tier-II banks when conducting FX transaction with intermediaries

2.1.1 A local bank presented on the business processes and principles followed by tier-II banks when conducting FX transaction with intermediaries. Key highlights were:

- i. The treasury outsourcing companies (TOC) industry was established 15 years ago and had developed over the years. There was an estimate of 150 intermediaries operating in South Africa and only 37 were members of the South African Association of Treasury Advisors (SAATA).
- ii. TOCs provided treasury services and professional advice to the small business enterprises (SMEs) and private clients, while traditional big banks focused on corporate and institutional clients.
- iii. Tier-II banks worked closely with the TOCs, which were intermediaries to clients. The banks followed a rigorous process when onboarding the TOCs. Thus, the TOC must, among other things, be approved by the South African Reserve Bank (SARB) and comply with Financial Sector Conduct Authority (FSCA) registered Financial Services Provider (FSP) requirements; registered as an accountable institution with the Financial Intelligence Centre; be solvent and audited on its customer due diligence processes and risk management practices; onboarded as a bank client; and agree to the TOC agreement terms and conditions.

- iv. Tier-II banks provided TOCs with tools to improve business value chain, such as electronic execution and maintenance platform, automated reporting, ongoing compliance and regulatory updates, as well as training.

2.1.2 Tier-II banks and the TOC industry were encouraged to use a panel of banks when sourcing prices, thereby complying with the principles of the Code – in terms of the disclosure and pricing transparency. Similarly, timestamps on deals or transactions referenced to market prices from trading platforms (Reuters or Bloomberg) could be used, for an audit trail purposes.

2.1.3 Most TOCs were unable to secure and obtain prices from a panel of banks due to lack of resources. Nonetheless, pricing models for TOCs were governed by mandates and confirmations, and this was disclosed upfront.

2.1.4 The TOC sector was growing as part of the South African FX market, and more SME clients depended on this industry for transaction execution and other FX services, for example, relating to exchange control compliance and validation. There were more compliance requirements to manage FX exposure in South Africa than in Europe and the United States of America (USA). Moreover, financial technologies (Fintechs) had a limited role to play in the local market due to exchange controls which limited their capacity and capabilities, whereas they were dominant in the offshore markets. The SAFXC pledged to support the TOC sector on all initiatives aimed at adhering to the Code.

2.2 The SAFXC outreach programme

2.2.1 The Global Foreign Exchange Committee (GFXC) aimed to review the Code, after three years. The next phase of the FX Global Code outreach was targeted to the buy-side sector and platforms across many jurisdictions.

2.2.2 The SAFXC, as the only local FX committee in Africa represented in the GFXC, had started the FX Global Code outreach in the SADC region through the channel of the Committee of Central Bank Governors (CCBG) meetings. The Chair and co-Chair of the GFXC, alongside the SAFXC and ACI representatives planned a workshop with CCBG members in June 2022 on the 'Introduction to the FX Global Code in the SADC region'. The adoption of a multi-pronged approach in implementing an outreach programme in the African region (i.e., the ACI, SAFXC and GFXC) was considered.

- 2.2.3 The SAFXC and Central Bank of Angola planned a webinar on the FX Global Code. It was envisaged that more bilateral engagements with other central banks in the SADC region would take place via webinars, in future.
- 2.2.4 On the buy-side outreach, it was once again highlighted that there was slow endorsement of the Code by this sector. This remained a challenge globally for various reasons. In response, the GFXC established a working group to building a proportionality tool to support the sector decide on key focus areas suitable for their FX operations.
- 2.3 Feedback from SAFXC members
  - 2.3.1 Concerns about the crypto operators and the crypto arbitrage service providers would be raised with FSCA and the SARB's Financial Surveillance Department (FinSurv).
  - 2.3.2 The GFXC meeting would be held on 27-28 June 2022.

### 3. **Date of the next meeting**

The next SAFXC meeting was scheduled for Thursday, 28 July 2022.