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SOUTH AFRICAN RESERVE BANK

File ref. no.: 11/11/11/2

Record of proceedings of the South African Foreign Exchange Committee virtual meeting held on Tuesday, 08 November 2022, from 14:00 to 15:30

Record of proceedings no. 04/2022

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

1. Overview

The South African Foreign Exchange Committee (SAFXC) discussed:

- 1.1 the presentation on the regulatory framework for cryptocurrencies; and
- 1.2 feedback from SAFXC members.

2. Summary of discussions

2.1 An official of the South African Reserve Bank (SARB) presented on South Africa's regulatory framework for crypto-assets (CAs). The summary of the presentation was as follows:

2.1.1 South Africa's Crypto Asset Regulatory Working Group (CAR WG) under the auspices of the Intergovernmental Fintech Working Group (IFWG) highlighted that CAs were multi-functional purpose assets and had a potential to fall outside the designated regulatory frameworks due to regulatory gaps and arbitrage. The IFWG introduced an aligned regulatory approach to CAs that would minimise any potential regulatory arbitrages by market participants within the current framework.

2.1.2 The objective of the regulatory framework was to bring CAs under the regulatory remit, using the principle of same activity, risk and regulation; proportionate regulation commensurate with risk posed; collaborative and joint approach; and ongoing proactive monitoring of developments.

2.1.3 The second objective would be to create sources of data, intended to be used for monitoring and enforcement in phase two. In addition, data would be used by the Prudential Authority of the SARB to assess financial stability risks.

2.1.4 The final CA position paper published in June 2021, proposed a phased approach, with phase one identifying the key risks in the financial sector, including consumer protection or market conducts concerns; anti-money laundering/combating the financing of terrorism (AML/CFT); cross-border flows; and limiting the exposure of regulated financial institutions and financial market infrastructures to crypto.

2.2 Feedback from SAFXC members

2.2.1 The formulation of a CA regulatory framework remained a pioneering work across

many jurisdictions. Regulators had to contend with many complexities and risks around CA as an asset class, without delaying the process of designing a suitable regulatory framework.

- 2.2.2 Concerns were raised about the regulatory gaps which disintermediate banks, as compliance with regulation was required before rendering CA-related services, while retail companies could accept crypto as a form of payment without any compliance. The Financial Sector Conduct Authority (FSCA) would provide clarity on the specificity of how interim exemption was implemented around the trading of CAs without a license.
- 2.2.3 In the global space, the principles of the FX Global Code (Code) focused on digital currencies, which included stable-coins, crypto, as well as central bank digital currencies (CBDCs).
- 2.3 The Global Foreign Exchange Committee (GFXC), SAFXC and representatives of the ACI Financial Markets Association (ACI) held a virtual webinar on 21 September 2022, titled 'Introduction to the FX Global Code' with the central bank of Angola as part of the SAFXC outreach to the Southern African Development Community (SADC) region. ACI Botswana, an affiliate of the ACI, hosted a meeting on 5 August 2022, and the SAFXC representative were invited to present on the Code to the domestic market.

3. Date of the next meeting

The next SAFXC meeting was scheduled for Thursday, 06 April 2023.