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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 Thursday, 7 March 2024 at 10:00–11:30

Record of proceedings no. 01/2024

Members in attendance	Apologies
Richard de Roos (Deputy Chairperson), Standard Bank	Zafar Parker (Chairperson), SARB
Andries Tshishonga, SARB	Bafundi Maronoti, SARB
Lucy Mabuza (Secretariat of the SAFXC), SARB	Gerald Katsenga, ACI South Africa
Chris Tsotsa (Secretariat of the SAFXC), SARB	Gary Haylett, BASA
Lesego Malehopo, SARB	
Chris Paizis (Authorised Dealer), Absa Bank	
Atli Khaas, ACTSA	
Gill Raine, ASISA	
Kumeran Govender (Authorised Dealer), Capitec Bank	
Marius de Jongh (Observer), FSCA	
Paul Wilson (Interdealer Broker), ICAP	
Brice Parise (Authorised Dealer), JP Morgan	
Elaine Mabiletsa (Exchange), JSE Limited	
Carlos Martins, SAATA	

1. Overview

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

- 1.1 feedback on market development following amendments to Regulation 28 of the Pension Fund Act 24 of 1956 (Pension Fund Act); and
- 1.2 feedback from SAFXC members.

2. Summary of discussions

2.1 Feedback on market development following the amendment to Regulation 28 of the Pension Fund Act was as follows:

- 2.1.1 The amendment permits institutional investors to increase foreign investments to 45%. This has led to an increase in the holding of offshore assets, particularly equities, and an above 40% offshore allocation.
- 2.1.2 It was acknowledged that different offshore asset management methods exist, as offshore allocation does not necessarily mean an asset shift from local managers to offshore ones. Many local asset managers still manage their own offshore assets.
- 2.1.3 The impact of the amendment to Regulation 28 on foreign exchange (FX) market is limited due to the reallocation of funds from an asset swap instrument into real offshore externalisation. Expectations were for a gradual decrease in offshore exposure by institutional investors, with a normalisation rate of between 35% and 40%. Initial market concerns about portfolio outflows due to the Regulation 28 amendment were overstated due to a lack of context and consideration of financial stability benefits from globally diversified assets.
- 2.1.4 However, the analysis on the influence of prudential limits on foreign investments or offshore exposure on the FX market was still in its early stages. Nonetheless, a balancing effect on the currency could result from the repatriation of funds back into the country when offshore allocations and the USD/ZAR level reaches a certain level.

2.2 Feedback from SAFXC members

- 2.2.1 The Association of Corporate Treasurers of Southern Africa's (ACTSA) breakfast

meeting on 20 February 2024 discussed the relevance and importance of the FX Global Code (Code), its principles, adoption guidelines, benefits for the buy side and the usefulness of the proportionality self-assessment tool. Corporates were encouraged to sign up individually for the statement of commitment.

- 2.2.2 In mid-2024, members of the South African Association of Treasury Advisors (SAATA) would receive a presentation emphasising the importance of the Code and its endorsement as well as the self-assessment proportionality tool. This would be followed by education on settlement risk and environmental, social and governance (ESG) updates.
- 2.2.3 Asset managers are awaiting timelines in terms of the Conduct of Financial Institutions Bill (COFI Bill) for the licensing as financial service providers. It was suggested that there could be some delays due to the 2024 national elections. The trading of a currency would be classified as a licensable product under the COFI Bill, with subordinate legislation enacted to align with the Code.
- 2.2.4 Offshore counterparties were increasing demand for USD/ZAR non-deliverable forwards (NDFs), despite the perception of them being associated with illiquid currencies. However, market focus had shifted from the currency's illiquidity to settlement risk due to the electricity crisis in the country. Intrinsically, offshore institutional counterparties were exploring the potential development of USD/ZAR NDFs from a systems and trading perspective.
- 2.2.5 The South African Reserve Bank (SARB) and the South African Institute of Financial Markets (SAIFM) discussed strategies for promoting the adoption of the FX Global Code. Discussions included leveraging SAIFM's channels, integrating the Code into regulatory and ethics licensing examinations, and planning a workshop on the Code.
- 2.2.6 The Global FX Committee's (GFXC) July 2024 meeting would be held at the European Central Bank (ECB), with the primary focus on the review of the Code. Targeted areas would include the Code's governance, self-assessment tool, the resigning of the statement of commitment, settlement risk, data sharing, transparency and ethics standards.

3. Date of the next meeting

The next SAFXC meeting was scheduled for Thursday, 20 June 2024.

Abbreviations

ACTSA	Association of Corporate Treasurers of Southern Africa
ASISA	Association for Savings and Investment South Africa
BASA	Banking Association South Africa
COFI Bill	Conduct of Financial Institutions Bill
ECB	European Central Bank
ESG	environmental, social and governance
FSCA	Financial Sector Conduct Authority
FX	Foreign exchange
GFXC	Global Foreign Exchange Committee
JSE	JSE Limited
NDF	non-deliverable forward
Pension Fund Act	Pension Fund Act 24 of 1956
SAATA	South African Association of Treasury Advisors
SADC	Southern African Development Community
SAFXC	South African Foreign Exchange Committee
SAIFM	South African Institute of Financial Markets
SARB	South African Reserve Bank
USD	US dollar
ZAR	South African rand