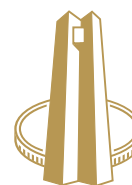


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SOUTH AFRICAN RESERVE BANK
 Financial Surveillance Department

14/6/2_2026

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Draft Exchange Control Circular No. x/2026

Synthetic Financial Centre

We refer to Exchange Control Circular No. 3/2026 and the announcement made by the Minister of Finance in Annexure E of the 2026 Budget Review. To promote South Africa as a competitive financial and investment hub for the African continent, the National Treasury will expand the HoldCo concept for corporations to include institutional investors.

The HoldCo regime was introduced to allow South African groups to establish holding company structures for offshore listings and acquisitions, primarily to support outward investment and corporate restructuring. This was expanded to the Domestic Treasury Management Company (DTMC) framework, which introduced a more comprehensive functional-currency and balance-sheet-based framework for the management of foreign assets and treasury activities from within South Africa by companies.

The DTMC framework laid the foundation for more sophisticated cross-border financial services conducted domestically.

The Synthetic Financial Centre framework (SFC) is the next stage in this development. It allows qualifying institutions to manage approved foreign currency activities from South Africa through ring-fenced arrangements. Applicable prudential requirements continue to apply.

Phased approach to the establishment of the Synthetic Financial Centre

The first phase of the SFC will enable management of portfolios of foreign assets by qualifying institutions on a domestic platform.

The second phase will consider broader market development reforms required to position South Africa as a foreign currency investment and capital raising hub. This may include enabling the issuance, listing and trading of foreign currency denominated equity and debt instruments on South African capital markets, the domiciliation of investment vehicles, market infrastructure, foreign currency collateral frameworks and related tax, legal and regulatory matters. The scope and implementation of Phase 2 will be subject to further regulatory assessment and stakeholder consultation.

The ultimate objective is to position South Africa as Africa's preferred location for the management, administration, domiciliation, listing, financing and distribution of international investment products and foreign currency financial services.

Participant eligibility

Institutional investors licensed by the Financial Sector Conduct Authority and/or the Prudential Authority and registered with the Financial Surveillance Department may qualify for the SFC dispensation, subject to the applicable requirements.

Participation in the SFC does not exempt an institutional investor from complying with any relevant prudential regulations administered by the Financial Sector Conduct Authority and/or Prudential Authority.

Qualifying managing institutions may participate and are not subject to a prudential foreign limit in respect of assets managed on behalf of eligible investors.

A private equity fund manager may also qualify for participation in the SFC dispensation, is members of the South African Venture Capital Association, licensed or authorised as discretionary financial services provider by the Financial Sector Conduct Authority and complies with section B.2(G) of the Currency and Exchanges Manual for Authorised Dealers (Authorised Dealer Manual).

South African resident corporates registered with the National Credit Regulator terms of the National Credit Act, 2005 (Act No. 34 of 2005) and authorised as a discretionary financial services provider by the Financial Sector Conduct Authority under the Financial Advisory and Intermediary Services Act (FAIS Act) may also qualify to participate in the SFC dispensation.

Authorised Dealers may participate in the SFC, subject to compliance with all applicable macro-prudential foreign limit, regulatory and exchange control compliance requirements.

Foreign financial services providers may apply to the Financial Surveillance Department to participate in the SFC dispensation, concurrently with the applicable licensing application to the Financial Sector Conduct Authority and/or the Prudential Authority. However, no SFC activity may commence until all requisite licences, approvals and authorisations have been obtained.

Investor eligibility

South African institutional investors and Authorised Dealers may invest through the SFC, subject to their prudential foreign limit and macro-prudential foreign limit, respectively.

Private individuals may invest directly through the SFC by utilising their foreign capital and/or single discretionary allowances, subject to section B.2(B) and B.4(A) of Authorised Dealer Manual.

Non-residents may invest through the SFC without restriction.

Synthetic Financial Centre framework

The Circular aims to set out a framework for the establishment and operation of a SFC in South Africa.

The following amendments to the Authorised Dealer Manual are outlined:

Section A.1

The following definition has been included as follows:

SFC means a Synthetic Financial Centre, established by regulatory framework and not by geography, under which qualifying South African institutions, licensed by the Financial Sector Conduct Authority and/or Prudential Authority and registered with the Financial Surveillance Department, may manage foreign portfolio assets and conduct approved foreign currency denominated financial activities from within the Republic through a ring-fenced mandate, portfolio, account or arrangement.

Section B.2(H)(iii)(a)

The section is amended as follows:

(a) Managing institution

- (aa) A managing institution is a life insurer, CIS manager or discretionary financial services provider registered with the Financial Surveillance Department that offers investment products to institutional and/or retail clients and, for purposes of foreign exposure, is not subject to a prudential foreign limit in respect of assets managed on behalf of originating institutions.
- (bb) A managing institution may, without restriction and subject to sections B.2(B) and B.4(B) of the Authorised Dealer Manual, invest funds on behalf of private individuals as part of their foreign capital and/or single discretionary allowances.
- (cc) A managing institution may invest on behalf of non-residents without restriction.
- (dd) A managing institution must maintain a clear segregation between assets and exposures attributable to the SFC and those recognised against its prudential foreign limit.
- (ee) Before acquiring offshore exposure on behalf of an originating institution, a managing institution must obtain and verify documentary evidence confirming that the Financial Surveillance Department has formally accepted, and not merely acknowledged receipt of, the originating institution's latest quarterly asset allocation report.

Section B.2(H)(iii)(b)

A new subsection (bb) has been added as follows:

(b) Originating institution

- (bb) For purposes of foreign exposure, retail assets managed by an originating institution on behalf of retail clients form part of the originating institution's prudential foreign limit.

Section B.2(J)

A new section B.2(J) has been included as follows:

(J) Synthetic Financial Centre

(i) Introduction

- (a) The SFC aims to enhance South Africa's competitiveness as Africa's regional financial hub by enabling more effective management of foreign currency portfolios within the domestic regulatory framework.
- (b) The SFC dispensation applies solely for purposes of capital flow and does not constitute a separate legal jurisdiction, exchange, market infrastructure, investment vehicle or fund domicile.
- (c) Participation in or approval under the SFC dispensation does not, constitute approval for the establishment, registration, domiciliation, offering or marketing

of any fund, investment vehicle or product in the Republic. Those activities remain subject to the applicable regulatory and licensing requirement.

- (d) Participation in the SFC does not exempt an SFC participant or investor from applicable requirements. It does not permit unrestricted externalisation or acquisition of foreign exposure; authorise an activity that is otherwise prohibited, replace, amend or extend an approval under the HoldCo or Domestic Treasury Management Company framework.
- (e) Approval under the SFC dispensation is limited to the conduct of approved SFC activities by the participant. Such approval is independent of and shall not be construed as extending to any investment mandate or contractual arrangement between the SFC participant and its client.

(ii) SFC principles

- (a) Ring fencing and segregation
 - (aa) All SFC assets, liabilities, transactions, positions, income, expenses, cash flows and exposures must be separately identifiable within the approved mandates under the SFC and must be operationally segregated from all other business activities.
- (b) Investor attribution of foreign exposure
 - (aa) Foreign exposure acquired through an approved SFC mandate remains attributable to the investor on whose behalf it is acquired. The foreign exposure shall continue to be recognised against the investor's applicable prudential foreign limit, macro-prudential foreign limit, foreign capital and/or single discretionary allowances or other applicable dispensation.
 - (bb) An SFC participant shall maintain records sufficient to identify, attribute and report such exposure in the manner prescribed by the Financial Surveillance Department. The exposure does not form part of the SFC participant's own prudential foreign or macro-prudential foreign limit unless acquired for its own account.
 - (cc) The SFC is available to participants with a recognised foreign investment limit, allowance or regulatory foreign exposure capacity. Entities without such capacity, including South African trusts, corporates and partnerships, are excluded from direct participation and may only participate through an approved originating institution, unless otherwise approved by the Financial Surveillance Department.
- (c) Preservation of asset classification
 - (aa) Assets held, managed, administered or transferred within the SFC retain their original domestic or foreign classification for exchange control, prudential or reporting purposes.
- (d) Continued regulatory compliance
 - (aa) All SFC participants and investors remain subject to applicable licensing, prudential, supervisory, regulatory and reporting requirements notwithstanding participation in, or recognition under, the SFC operations.

(e) Funding and foreign currency flows

- (aa) Participation does not permit unrestricted externalisation, foreign exposure beyond an applicable allowances or prudential foreign limits, or circumvention of the Authorised Dealer Manual.
- (bb) Approved foreign currency source means foreign currency available to an SFC participant, foreign currency held in an authorised foreign currency account, foreign currency proceeds, foreign assets realised for investment purposes, foreign earned income retained abroad and held in foreign bank accounts or foreign currency source approved by the Financial Surveillance Department.
- (cc) An SFC investment must be funded from an approved foreign currency source, unless otherwise approved by the Financial Surveillance Department.
- (dd) All foreign currency flows relating to SFC activities must originate from or be credited to an approved foreign currency source. This includes funding, investment, settlement, receipts, distributions and repatriations unless otherwise approved by the Financial Surveillance Department.
- (ee) Fees and expenses directly attributable to approved SFC activities may be settled in foreign currency, provided they are funded from an approved foreign currency source and appropriately disclosed.

(iii) Qualifying SFC participants

- (a) The following entities will be considered as qualifying SFC participants:
 - (aa) Institutions authorised to conduct activities approved under the SFC dispensation, including the management of foreign asset portfolios and/or foreign-currency-denominated financial instruments under an agreed mandate, and is:
 - (1) licensed as a Category II or IIA discretionary financial services provider under the FAIS Act by the Financial Sector Conduct Authority and/or;
 - (2) licensed by the Prudential Authority;
 - (3) registered with the Financial Surveillance Department;
 - (4) conducts SFC activities through a mandate or portfolio capable of being effectively ring-fenced;
 - (5) maintains records sufficient to identify and attribute SFC assets, liabilities and exposures; and
 - (6) satisfies reporting requirements prescribed by the Financial Surveillance Department.
 - (bb) Authorised users as defined in the Financial Markets Act, (excluding external authorised users) where it is:

- (1) registered with a South African exchange under the Financial Markets Act;
 - (2) authorised by the Financial Sector Conduct Authority as a Category II or IIA discretionary financial services provider under the FAIS Act; and
 - (3) conducts SFC activity through a segregated discretionary mandate or portfolio approved for that purpose.
- (cc) South African resident corporates registered with the National Credit Regulator in terms of the National Credit Act, 2005 (Act No. 34 of 2005) and authorised as a discretionary financial services provider by the Financial Sector Conduct Authority under the FAIS Act.
- (dd) Private equity funds managers that are members of the South African Venture Capital Association and licensed, authorised as a discretionary financial services provider by the Financial Sector Conduct Authority may also qualify for participation in the SFC dispensation, subject to the activities and requirements outlined in section B.2(G) Authorised Dealer Manual.
- (ee) Authorised Dealers may participate in the SFC, subject to applicable macro-prudential foreign limit, regulatory and exchange control compliance requirements.
- (ff) A foreign financial services provider may apply to the Financial Surveillance Department to participate in the SFC dispensation, concurrently with the applicable licensing application to the Financial Sector Conduct Authority and/or the Prudential Authority. However, no SFC activity may commence until all requisite licences, approvals and authorisations have been obtained.

(iv) Investors in SFC

- (a) The following entities will be allowed to invest with an approved SFC participant:
- (aa) Originating institutions registered with the Financial Surveillance Department, provided that:
- (1) such investments remain within the originating institution's applicable prudential foreign limit;
 - (2) the provisions of section B.2(H) of the Authorised Dealer Manual are adhered to; and
 - (3) the originating institution provides the SFC participant with:
 - 1. a registration certificate issued by the Financial Sector Conduct Authority and/or Prudential Authority; and
 - 2. documentary evidence confirming the acceptance (not acknowledgement) of the latest quarterly asset allocation report of the originating institution issued by the Financial Surveillance Department before acquiring offshore exposure on behalf of an originating institution.

(bb) Authorised Dealers, provided:

- (1) such investments remain within the Authorised Dealer's macro-prudential foreign limit; and
- (2) the provisions of section B.2(I) of the Authorised Dealer Manual are being adhered to.

(b) Private individuals, provided:

- (1) such investments remain within the private individual's applicable foreign capital and/or single discretionary allowances as outlined in sections B.2(B) and B.4(A) of the Authorised Dealer Manual.

(c) Non-residents are permitted to invest via the SFC without restriction.

(v) Qualifying foreign economic exposure

(a) Foreign economic exposure

(aa) A financial instrument shall qualify only where its economic exposure, determined on a look-through basis with reference to the underlying assets, risks and returns, is principally attributable to assets, issuers or economic activity situated outside the Republic.

(bb) Institutional investors shall apply a full look-through approach when determining its domestic and foreign exposures and shall separately identify and report the domestic and foreign components of the underlying portfolio.

(b) Classification of portfolios with incidental South African assets and exposures

(aa) A portfolio that is predominantly foreign in its investment mandate, economic exposure and asset composition shall not be excluded from participation in the SFC solely by reason of incidental South African assets or exposures.

(bb) Eligibility for participation in the SFC shall be determined by whether the portfolio is predominantly foreign in nature rather than its name, classification or geographic designation.

(cc) Any South African assets or exposures held within an SFC portfolio shall retain their domestic classification for exchange control, prudential, regulatory and reporting purposes. Neither such assets or exposures, nor any related income, distributions, proceeds or resulting exposures, shall be recognised as foreign solely by virtue of their inclusion in the SFC portfolio and shall be attributed and treated accordingly.

(vi) SFC instruments

(a) SFC instrument refers to:

(aa) An SFC instrument includes a foreign currency-denominated financial instrument providing foreign economic exposure, a qualifying interest in a

foreign private fund, a qualifying foreign currency loan secured by existing offshore assets, qualifying foreign currency financing, or any other instrument approved by the Financial Surveillance Department in accordance with the SFC operation.

(bb) An SFC instrument must comply with the core SFC principles, be attributable to an approved SFC mandate, be funded from an approved foreign currency source and be settled in foreign currency.

(cc) Any South African or rand-denominated exposure must be incidental to the instrument and must not constitute the principal source of economic exposure, risk or return. It must remain separately identifiable and be reported as domestic exposure.

(b) Foreign private funds

(aa) Interests in foreign private funds may qualify only where investor commitments, capital calls, distributions and fees are traceable to the agreed mandate demonstrating foreign exposure.

(vii) Qualifying SFC activities

(a) An approved SFC participant may:

(aa) manage qualifying foreign assets or foreign currency exposures;

(bb) administer or service an approved foreign investment mandate;

(cc) acquire, hold, manage or trade qualifying SFC instruments;

(dd) undertake qualifying foreign currency financing; and

(ee) centralise approved management, administration or servicing functions.

(b) Approval is limited to the approved mandate, portfolio, account or other arrangement.

(viii) Centralisation of foreign operations

(a) An approved SFC participant may transfer, relocate or centralise qualifying foreign operations within the SFC provided that:

(aa) the underlying assets remain eligible foreign assets;

(bb) applicable prudential, supervisory licensing and reporting requirements continue to be complied with; and

(cc) all activities comply with SFC participation criteria, approval conditions and reporting obligations.

(b) For purposes of paragraph (a) above, qualifying foreign operations may include foreign branch, foreign office, foreign portfolio administration, foreign custody or foreign currency investment operations.

(ix) Operational requirements

(a) An SFC participant must maintain systems, records, controls and governance arrangements sufficient to separately identify, attribute, monitor and report each approved arrangement.

- (b) The arrangements must be maintained for the duration of the approval and made available for inspection on request.
- (c) Foreign currency accounts
 - (aa) A SFC participant must maintain a ring-fenced resident foreign currency account with an Authorised Dealer for purposes of approved SFC activities only.
 - (bb) The account may be credited or debited solely with amounts directly related to approved SFC activities, including fees and expenses. No unrelated transactions may be conducted through these accounts.
- (d) Execution, custody and settlement arrangements
 - (aa) The execution, clearing, custody and settlement of investment transactions may be undertaken through appropriately regulated brokers, counterparties, custodians or other recognised market infrastructure, subject to compliance with all applicable regulatory requirements.
 - (bb) Capital flow and reporting

All foreign exchange transactions, capital transfers, settlement-related cash flows and regulatory reporting associated with SFC activities must be conducted through an Authorised Dealer or otherwise as approved by the Financial Surveillance Department.
- (e) Realisation and treatment of proceeds by investors
 - (aa) Proceeds may be retained in an approved foreign currency account, reinvested in qualifying foreign exposure, repatriated or otherwise transferred in accordance with the Authorised Dealer Manual.
 - (bb) Reinvested proceeds remain recognised against the applicable prudential foreign limit, macro-prudential foreign limit, foreign capital and/or single discretionary allowances or as approved by the Financial Surveillance Department.
 - (cc) Where proceeds cease to constitute qualifying foreign exposure, the corresponding foreign exposure must be adjusted.
- (x) Application procedure
 - (a) Requests by an SFC participant must be referred to the Financial Surveillance Department through an Authorised Dealer, for consideration. At the time of engagement, the applicant must be registered with the Financial Surveillance Department as an institutional investor.
 - (b) The application must include the following information, where applicable:
 - (aa) Proof of registration with the:
 - (1) Financial Sector Conduct Authority as a discretionary financial services provider under the FAIS Act; and/or
 - (2) Prudential Authority; or

- (3) South African exchange as an authorised user, as defined in the Financial Markets Act, (excluding external authorised users); or
- (4) South African Venture Capital Association as a private equity funds manager; or
- (5) National Credit Regulator in terms of the National Credit Act, 2005 (Act No. 34 of 2005) as a credit provider.

(bb) Details of the mandate or portfolio which should be individually identified, maintained separately, with all assets and exposures clearly attributed.

(cc) Details of the activities the SFC participant will perform as per the agreed mandate, specifically, whether it will manage foreign asset portfolios and/or trade instruments denominated in foreign currency.

(xi) Adjudication process

- (a) The Financial Surveillance Department will consider an application for registration as an SFC participant upon receipt of an application submitted through an Authorised Dealer. In considering the application, the Department may take into account, inter alia, factors pertaining to promoting South Africa as a competitive financial and investment hub for Africa.
- (b) The compliance with the terms and conditions for the submission of an application should not be construed as an indication that the application will necessarily be approved.
- (c) The Financial Surveillance Department may refer an application to the National Treasury for their consideration.
- (d) The Financial Surveillance Department will provide written notice of the decision in respect of the application to the applicant through an Authorised Dealer.

(xii) Reporting requirements

- (a) The SFC participant is not subject to prudential foreign limit in respect of foreign exposures acquired on behalf of an originating institution under an approved SFC mandate.
- (b) SFC participants will be required to report the nature and extent of foreign exposure arising from SFC activities for purposes of statistical compilation, foreign capital flows and exposure monitoring.
- (c) All transactions executed under this dispensation must be reported under category x on the FinSurv Reporting System, with the subject field indicator indicated as 'Synthetic Financial Centre' and Circular x/2026 in the SARBAuthReferenceNumber field.
- (d) The SFC participant must submit to the Financial Surveillance Department a return on a quarterly basis, including:
 - (aa) name of the originating institution;
 - (bb) holdings and exposures by instrument category; and

(cc) funding sources and financing arrangements attributable to the approved mandates.

(xiii) Inspection and supervision

(a) The Financial Surveillance Department shall require such information, records and reports as may be necessary to verify compliance with the SFC framework, approval conditions and reporting requirements.

(xiv) Amendment, suspension or withdrawal of approval

(a) The Financial Surveillance Department may amend, suspend or withdraw an SFC approval where:

(aa) the approval conditions are breached;

(bb) the arrangement no longer complies with section B.2(J);

(cc) information provided is materially inaccurate or misleading; or

(dd) the arrangement is used to circumvent the Authorised Dealer Manual, reporting requirements or applicable foreign allowances or limits requirements.

(b) The Financial Surveillance Department may direct the amendment, regularisation, reclassification or unwinding of any arrangement, transaction or position affected by such action.

Existing B.2(J) will be the new section B.2(K)

The subsection has now been renumbered as subsection B.2(K).

Existing B.2(K) will be the new section B.2(L)

The subsection has now been renumbered as section B.2(L).

The amended Authorised Dealer Manual may be accessed on the South African Reserve Bank website, www.resbank.co.za, by following the path: Home>What we do>Financial Surveillance>Financial Surveillance documents.

Head of Department: Financial Surveillance