## Box 3 Unpacking the statistics of foreign financial assets held by South African institutional investors

South African institutional investors'[1] offshore investments are subject to prudential regulation.[2] This box unpacks their foreign financial asset statistics[3] and highlights pertinent underlying definitions and methodological principles, along with some general observations from these statistics.

From a methodological and definition perspective, there are important caveats and nuances to consider when using the statistics published in the *Quarterly Bulletin.* These statistics are compiled in accordance with the *System of National Accounts 2008 (2008 SNA)*[4] and related International Monetary Fund (IMF) manuals in the context of the prudential limits. Foreign financial assets in these statistics comprise all financial instruments issued by non-residents, inclusive of inward secondary-listed shares[5] on South African exchanges, whereas prudential regulation excludes the latter. The prudential regulation is based on the look-through principle, with disclosure of the underlying assets, whereas the information in the *Quarterly Bulletin* is not compiled on a look-through basis. Furthermore, the non-bank financial institution[6] statistics published in the *Quarterly Bulletin* do not include investment managers, and do not make a distinction between linked and non-linked life insurers and retail and institutional assets under management, while there is also an element of double counting if aggregated due to cross-holdings among these institutional sectors.[7] The external account statistics in the *Quarterly Bulletin* that relate to South Africa's foreign financial assets are published in the 'foreign portfolio investment'[8] functional category[9] of the international investment position (IIP).[10, 11] In the IIP, foreign portfolio investment assets are disaggregated by domestic institutional sector and by instrument. It must be noted that the methodology used by the South African Reserve Bank's (SARB) Financial Surveillance Department (FinSurv) in calculating the foreign exposure of institutional investors differs from the calculations in the *Quarterly Bulletin*. FinSurv's statistics are based on institutional investors' quarterly asset allocation reports

---

1 In this analysis, institutional investors could include linked and non-linked life insurers, retirement funds, collective investment scheme management companies and discretionary financial services providers, which are specified depending on the source data.

2 The *2022 Budget Review* announced a change in the prudential limits from 30% and 40% as well as an additional 10% Africa allowance of total retail assets under management to a combined single prudential limit of 45% for all institutional investors. Therefore, offshore and/or African assets may be acquired up to 45% of total retail assets under management. See http://www.treasury.gov.za/documents/national%20budget/2022/review/Annexure%20F.pdf and https://www.resbank.co.za/content/dam/sarb/what-we-do/financial surveillance/institutional-investors/10-2022.pdf

3 The foreign financial assets statistics described in this box are extracted from the non-bank financial institution statistics (unit trusts, life insurers and retirement funds) on pages S–38 to S–46 and the external account statistics (South Africa's foreign portfolio investment as part of the international investment position) on pages S–97 and S–102 to S–105 in this edition of the South African Reserve Bank's (SARB) *Quarterly Bulletin*, as well as the SARB's Financial Surveillance Department's (FinSurv) quarterly asset allocation reports. For FinSurv's online reporting requirements, see https://www.resbank.co.za/en/home/what-we-do/financial-surveillance/institutional-investors.

4 See https://unstats.un.org/unsd/nationalaccount/docs/SNA2008.pdf

5 A secondary listing is when a non-resident company with a primary listing on another overseas bourse also lists on a South African exchange.

6 Non-bank financial institutions include life insurers, retirement funds and unit trusts.

7 An example of double counting occurs when retirement funds invest through life insurers and asset managers in offshore funds which, in turn, invest in foreign financial instruments.

8 Portfolio investment is defined as cross-border transactions and positions in debt or equity securities, other than those included in direct investment or reserve assets.

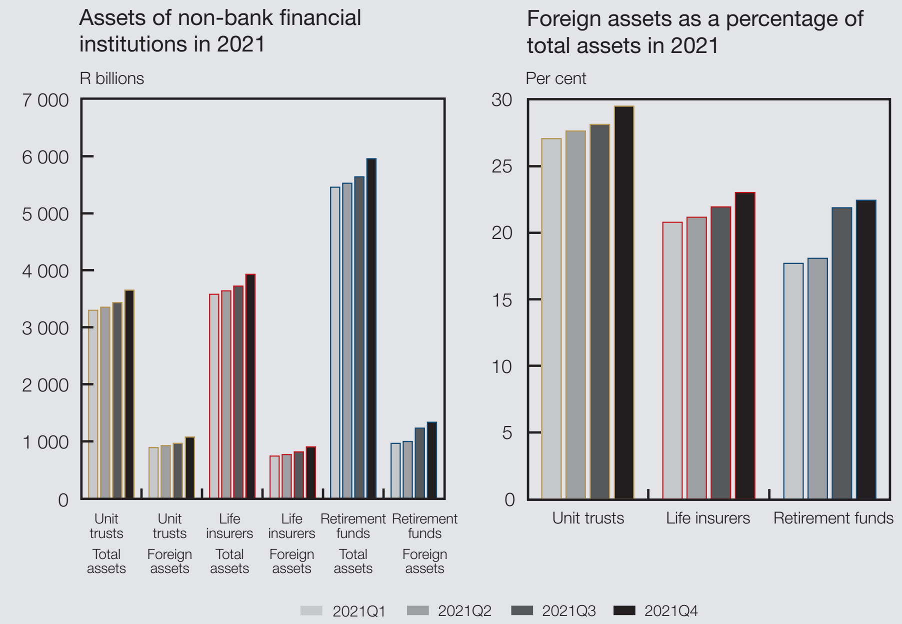
9 The functional categories are the primary classification of financial transactions in the balance of payments and consist of direct, portfolio and other investments as well as financial derivatives and reserve assets.

10 The IIP is a point-in-time statistical statement that shows the value and composition of the financial assets of the residents of a country (i.e. claims on non-residents and gold bullion held as reserve assets) and liabilities (i.e. claims by non-residents on residents).

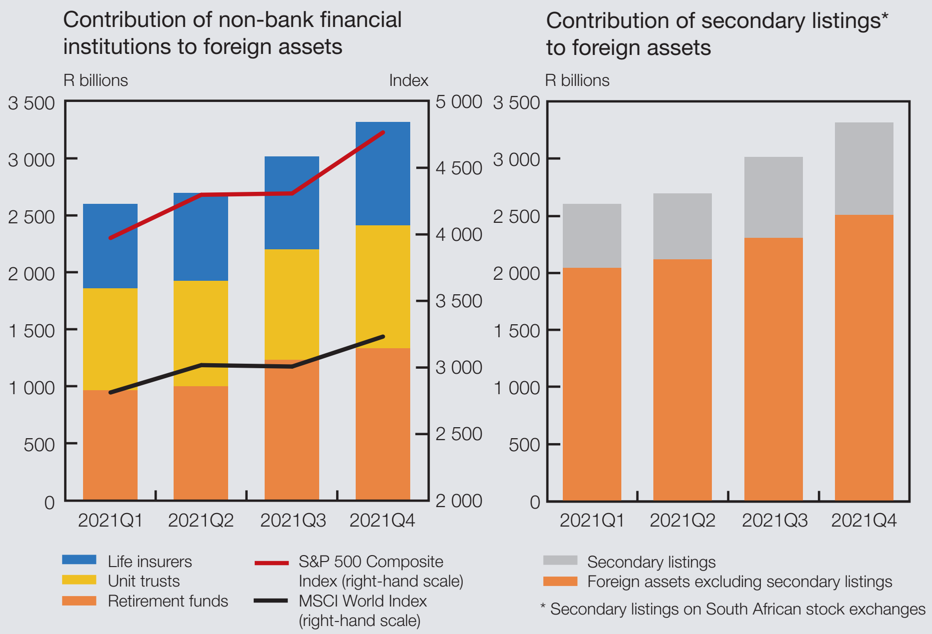
11 The methodology used to compile South Africa's IIP statistics adheres to the guidelines of the sixth edition of the *Balance of Payments and International Investment Position Manual (BPM6)* of the International Monetary Fund (IMF), available at https://www.imf.org/external/pubs/ft/bop/2007/pdf/bpm6.pdf

(QAARs),[12] which monitor the prudential limits of retail assets under management on a look-through basis and with inward secondary-listed shares on South African exchanges regarded as domestic financial assets, while inward-listed debt and derivative instruments referencing foreign assets are regarded as foreign.

The statistics of non-bank financial institutions in the *Quarterly Bulletin* render the following insights. Non-bank financial institutions' total assets of R13.5 trillion in the fourth quarter of 2021 included foreign assets of R3.3 trillion, with the foreign assets as a percentage of total assets of unit trusts, life insurers and retirement funds[13] amounting to 29.5%, 23.0% and 22.4% respectively. As expected, changes in the value of these institutions' foreign assets also reflected price developments in foreign financial markets and changes in the exchange value of the rand. Notably, the holdings of secondary-listed shares on South African exchanges accounted for 24.4% of total foreign assets in the fourth quarter of 2021, while most foreign assets were held in equity and investment fund shares at 86.2% during the same period.




Source: SARB



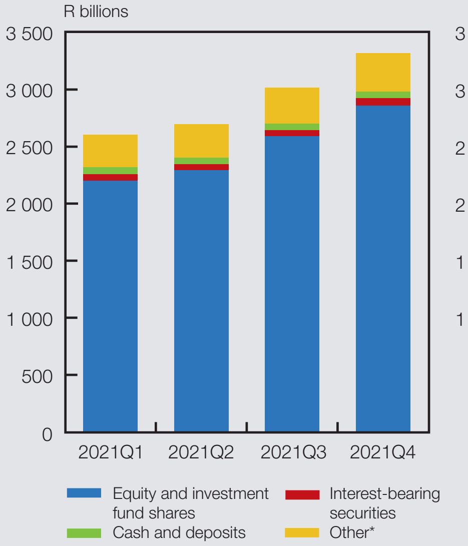

Source: SARB

---

12 The QAARs provide the primary mechanism for monitoring compliance with the prudential limit by FinSurv.

13 Retirement funds consist of funds that are regulated and supervised in terms of the Pension Funds Act 24 of 1956, and funds operating under own statutes, such as the Government Employees Pension Fund, Transnet and the Post Office.

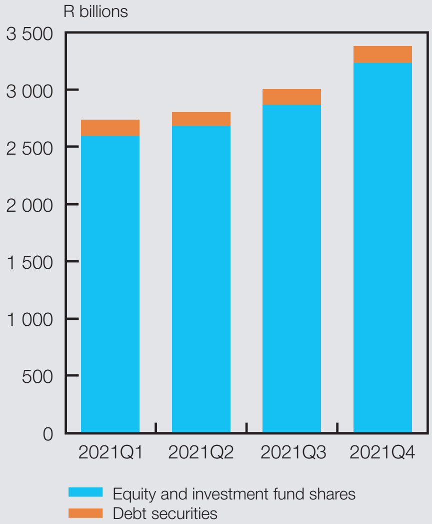
Non-bank financial institutions' foreign assets by type of financial instrument




* Other assets include insurance policies, reinsurance assets, loans, financial derivatives, accounts receivable and other assets

Source: SARB

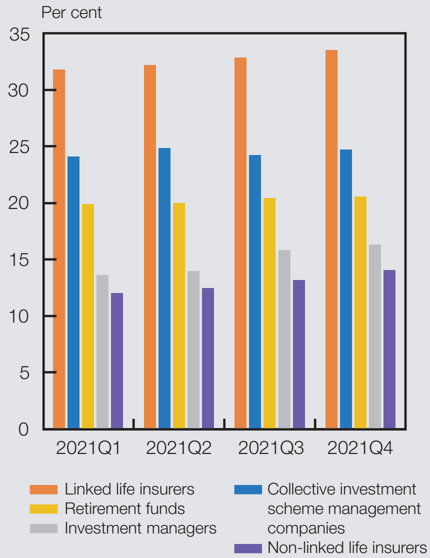
International investment position: South Africa's private non-banking sector's foreign portfolio assets




From an external accounts IIP perspective, the market value of the private non-banking sector's foreign portfolio assets of R3.4 trillion in the fourth quarter of 2021 comprised mostly equity and investment fund shares, at 95.6%. The IIP statistics reflect transactions (i.e. cross-border flows related to both investment outflows as well as inflows from the sale and repatriation of such financial assets) and revaluations due to price changes and movements in the exchange value of the rand.

Institutional investors' foreign retail assets under management


Institutional investors' foreign retail assets as a percentage of total retail assets under management




Source: SARB

The statistics based on institutional investors' QAARs show that retail assets deemed as foreign[14] amounted to R2.2 trillion in the fourth quarter of 2021. The foreign exposure of each institutional sector relative to that sector's total retail assets under management was well within the prudential limits, but that of individual institutional investors could differ.

14 This includes African investment.