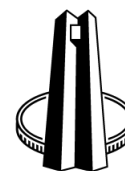


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South African Foreign Exchange Committee

Record of proceedings of the South African Foreign Exchange Committee virtual meeting held on Tuesday, 24 November 2020, from 11:00 to 12:30

Record of proceedings no. 04/2020

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 Andries Tshishonga, SARB Aurelia Makgato, SARB Michael Galatis, ACI South Africa Mark Schwartz, ACTSA Gill Raine, ASISA Chris Paizis (Authorised Dealer), ABSA Bank Gary Haylett, BASA Paul Wilson (Interdealer Broker), ICAP Udesh Moodley (Exchange), JSE Limited Marius de Jongh (an observer), FSCA</p> <p><u>By invitation</u> Mark Brijder (Authorised Dealer), Bidvest Bank Richard Beddow, SAATA Carlos Martins, SAATA Hennie de Klerk, SAATA Charles Nevhutanda, SARB Ross Hooper, SARB Johan Kruger, SARB</p>	<p>Samantha Springfield, SARB Kumeran Govender (Authorised Dealer), Bidvest Bank Mate Munalula (Authorised Dealer), Citibank</p>

1. Overview

The South African Foreign Exchange Committee (SAFXC) discussed:

- 1.1 the presentation on the role of the treasury advisors (TAs) industry in the foreign exchange (FX) market, as well as its request for membership in the SAFXC; and
- 1.2 feedback from the SAFXC members.

2. Summary of discussions

- 2.1 The South African Association of Treasury Advisors (SAATA) presented on the role of TAs in the domestic financial market. The following was highlighted:

2.1.1 An update on compliance with regulations

- i. SAATA had liaised with the Financial Surveillance Department (FinSurv) of the South African Reserve Bank (SARB) on regulatory reforms around the TA industry. It had consulted with the Regulatory Policy Division of the Financial Sector Conduct Authority (FSCA) on the current reforms to the regulations applicable to the TA industry. SAATA had also made submissions on the revised draft of the Conduct of Financial Institutions (CoFI) Bill to National Treasury (NT) in October 2020.
- ii. On compliance, the treasury advisors indicated that they complied with the principles of fairness, transparency and integrity, as outlined in the following pieces of legislation: the Financial Advisory and Intermediary Services Act 37 of 2002 (FAIS Act), the General Code of Conduct for Authorised Financial Services Providers (General Code), the Treating Customers Fairly (TCF) guidelines and the FX Global Code (Code).
- iii. According to SAATA, all its members had signed statements of commitment (SoCs), aligning their FX activities with the principles of the Code.

2.1.2 Disclosure, transparency and pricing within the TA industry

- i. The FAIS Act and TCF disclosure requirements oblige treasury advisors to

adhere to strict disclosure requirements on product and service offerings, the financial services provider (FSP), and the fee structure. Financial services should be rendered honestly, fairly, with care and diligence, and in the best interests of clients. They should also serve to protect the integrity of the financial services industry.

- ii. Effective from December 2020, SAATA would assist the FSCA in identifying areas where the General Code did not adequately cover treasury advisors' operations. Specific conduct standards to address any existing gaps would be proposed.
- iii. The stipulations under which treasury advisors operated were detailed in the mandate and/or service level agreement (SLA) signed with a client signed a mandate and/or an SLA with the treasury advisor. The Authorised Dealer Legal Department of the FSCA conducted vetting on mandates and SLAs.
- iv. Clients were required to agree to, and sign, a revenue model (detailed in the mandate), including the fees to be collected and method of collection so as to comply with disclosure and transparency standards. The treasury advisors' revenue model varied. In certain instances, a treasury advisor invoiced customers for the services rendered. Alternatively, the authorised dealer (AD) acted as a collecting agent for the treasury advisors and clients paid fees to banks as part of the settlement. This fee, however, was disclosed separately. A client decided on a revenue model most suitable for the institution's business operations. Mandates or SLAs were not exclusive; a client could trade away from a treasury advisor if they were not satisfied with the services being rendered.
- v. On best execution, Bloomberg and Reuters provided exchange rates to various market participants, which served as reference rates. Clients could quickly notice uncompetitive rates from TAs. Also, the majority of TAs subscribed to the Bloomberg and/or Reuters services, and were thus able to constantly benchmark the banks' rates.
- vi. Growth trends in the TA sector, along with high client retention, reflected high satisfaction levels in the value-add and client services experience. Most treasury advisors relied primarily on word-of-mouth referrals for new business, again demonstrating the client perception of value-add and fairness of services.

2.1.3 Compliance, surveillance and benchmarking

- i. Treasury advisors were required to submit a written declaration to FinSurv annually, confirming their adherence to the conditions outlined in the SARB's Circular 13 of 2012. This Circular was, however, under review. FSCA and FinSurv also audited treasury advisors annually, which involved the selection of a few clients and/or transactions for deeper scrutiny.
- ii. SAATA pledged to adhere to the principles of the Code. It would welcome SAFXC's further inputs on any existing gaps within the treasury advisory sector to serve as discussion points in its engagement with the FSCA.

2.1.4 SAATA expressed interest in being considered for full membership in the SAFXC

- i. SAATA preferred that the treasury outsourcing companies (TOC) be called 'Treasury Advisory (TA)' as the term encapsulated a broader spectrum of products and services in the sector.
- ii. FinSurv affirmed that it was re-drafting the current exchange control regime, moving to a capital flow management framework. SAATA was encouraged to engage FinSurv on any areas of concern requiring the regulator's attention, and also to reduce bureaucracy or red tapes.
- iii. On the SoC issue, SAATA explained that although all its members had signed SoCs, these had not been published on its website. However, SAATA emphasised that signing a SoC was a precondition for being a member of the association.
- iv. SAATA was commended for the measures it had taken to comply with existing regulations. However, the association was cautioned about embedding the principles of the Code within the treasury advisors' FX business activities and also about dealing with disputes. The nature of SAATA's disclosure requirements for clients should be such that clients could make informed decisions.
- v. The next step for SAATA would be to collate information that provided by the SAFXC and compose disclosure requirements that were applicable and proportionate to the types of products and services offered by treasury advisors. The Code made provision for proportionate disclosures, but these disclosures

had to be clear and concise.

- vi. Similarly, disclosures should be done in such a manner that clients could always identify and assesses potential conflicts of interest and disputes, and make an informed decision on the product and service offerings.

2.1.5 Discussion on SAATA membership

Members supported the TA's membership of the SAFXC.

- i. SAATA would represent the TOCs and raise industry-specific issues.
- ii. The TA industry's growth trend was unique to South Africa. There were no similar trend globally and their participation in the SAFXC would add value.
- iii. Given the envisaged liberalisation of exchange controls in South Africa, wealth managers and small businesses in the market were expected to increasingly rely on treasury advisors to provide services and execute small cross-border trades. SAATA membership of the SAFXC would complement the buy-side sector.
- iv. The SAFXC members agreed to grant SAATA a full membership of the committee. The committee would support and guide SAATA in complying with the Code proportionately.

2.2 Feedback from the SAFXC members

Members provided feedback on the Global Foreign Exchange Committee (GFXC) material relating to the three-year review of the Code. They also provided an update on domestic market developments.

2.2.1 Feedback on the GFXC's material was as follows:

- i. The three-year Code review was ongoing and would provide some flexibility around issues of conduct, which was a challenge because the Code was principle-based.
- ii. The debate on standardised buy-side disclosure and a separate Code was set aside. It was concluded that a single Code remained the best way of ensuring a common market standard that constituted good practice.

- iii. Disclosures around pre-hedging and last-look trading practices were highlighted as areas of most concern.
- iv. Discussions on anonymous trading platforms and how the disclosure principles could apply to those platforms as well as the flow of information between the parties using them, were ongoing.
- v. The review of the Code's principles included the increasing adoption of algorithmic (algos) execution in the FX market. It had been estimated that between 10% and 20% of FX spot trading globally was accounted for by algos execution. Disclosures around algos were often high-level.
- vi. Settlement risk was a focus for the industry. The GFXC had indicated the need to strengthen the Code's guidance in this area. As part of the current review of the Code, the GFXC had requested feedback from market participants on how they managed their settlement risks.

2.2.2 Update on domestic market developments

- i. The FX market displayed maturity, with no dislocations, despite a heightened sovereign rating downgrade trajectory risk. For the medium to long term, further rating downgrades could not be written off, which was a source of concern. In addition, the real impact of the rating downgrade would only be felt after the COVID-19 pandemic, when market focus was expected to shift to South Africa's fundamentals.
- ii. A survey of corporate treasurers active in the FX market indicated that the drastic weakening of the local currency due to the deterioration in the country's risk profile as well as the inability to execute some transactions due to liquidity constraints were two primary concerns.
- iii. The inward-listing dispensation announced after the *Medium Term Budget Policy Statement (MTBPS)* had created some confusion, as the interpretation had arisen that institutional investors could externalise their total portfolios. Concerns had been raised about the potential impact on South Africa's balance of payments. However, the circular had been withdrawn on 24 November 2020, and the principles outlined in Regulation 28 of the Pension Funds Act 24 of 1956 continued to apply, allowing for further review and clarity.

- iv. Comments had been submitted on the draft CoFI Bill, noting a significant impact on the wholesale side of the businesses for banks.

3. Date of the next meeting

The next SAFXC meeting was scheduled for Tuesday, 16 March 2021.