

## Exchange Control Department

2010-02-17

### **Exchange Control Circular No. 6/2010**

#### **Prudential limit on foreign diversification by Authorised Dealers**

Authorised Dealers are advised that, with effect from 2010-03-01, they will be able to acquire direct and indirect foreign exposure up to a macro-prudential limit of 25% of their total liabilities, excluding total shareholder's equity. It must be clearly understood that the methodology used by Exchange Control in calculating the foreign exposure should not be confused with the directives issued by the Bank Supervision Department of the South African Reserve Bank.

Exchange Control defines foreign exposure as all foreign assets held where such assets are foreign currency denominated as well as foreign assets denominated in Rand and will therefore, *inter alia*, include the following:

- Assets outside of South Africa;
- claims on non-residents;
- commodities;
- deposits with foreign banks; and
- inward listed holdings, including derivatives.

The macro-prudential limit of 25% of total liabilities is only applicable to Authorised Dealers who are not branch operations of foreign institutions. Branches of foreign institutions operating as banks in South Africa, are regulated by the Bank Supervision Department of the South African Reserve Bank in their entirety.

The macro-prudential limit is applicable to transactions which, *inter alia*, include underwriting foreign currency denominated bonds issued by local entities as well as South African Government bonds, issuing guarantees, foreign currency lending to non-residents, foreign portfolio investments in equity, debt and derivative instruments.

Authorised Dealers must note that where advances are made available to their offshore branches/subsidiaries and such funding is externalised to third party clients, funding so utilised, should be included in the calculation of the macro-prudential limit. Funds externalised indirectly through a branch/subsidiary in this manner are deemed as funds being made available directly by the Authorised Dealer to the offshore third party.

Foreign exposures directly related to infrastructural development and/or outward foreign direct investment, including acquisitions in terms of Section 52 of the Banks Act, 1990, (Act No. 94 of 1990), are excluded from the macro-prudential limit. Customer Foreign Currency Account balances, foreign currency denominated facilities made available to South African companies in respect of bona fide foreign direct investments and intra-group bank exposures, are similarly excluded from the macro-prudential limit.

In cases where the macro-prudential limit has been exceeded, Authorised Dealers must provide an explanation for the over-exposure together with a clear indication of how and by when they intend to adjust the foreign exposure to fall within the applicable limit.

A copy of the template, to be completed by the Authorised Dealers on a monthly basis is attached and must be submitted to Exchange Control by the 20<sup>th</sup> working day of the following month. The amounts reflected on the applicable Bank Supervision Department's BA Returns, under the specified line items, must be populated when completing the Macro-Prudential Foreign Exposure Limit Return.

The template may also be downloaded from the South African Reserve Bank's website – [www.reservebank.co.za](http://www.reservebank.co.za), by following the links: Home>Exchange controls>Foreign Portfolio Investments/Prudential Regulations>Macro-Prudential Foreign Exposure Limit Return.

The returns must be submitted electronically via e-mail to the following address: [sarbportfolio@resbank.co.za](mailto:sarbportfolio@resbank.co.za), containing the wording: "Macro-Prudential Foreign Exposure Limit Return" in the subject field.

Authorised Dealers must, in addition, submit a separate schedule detailing a breakdown of their macro-prudential limit into the largest five asset classes by

indicating amounts and percentages on an aggregated basis, when submitting the monthly Return.

Authorised Dealers will also be required, as part of their financial year end audit, to obtain a limited assurance report from their auditors verifying and confirming the amounts on the last submitted Macro-Prudential Foreign Exposure Limit Return at year end. The audit reports must be submitted to Exchange Control within a maximum period of six months after the financial year end.

In view of the foregoing, a new subsection B.2(B)(iv) has been added and amendments made to subsections E.(A)(i) and (ii), and Sections I.2 and K. of the Exchange Control Rulings.

Replacement pages of the Exchange Control Rulings, incorporating the relevant amendments, are attached to Exchange Control Circular No. 7/2010 dated 2010-02-17.

**Head of Department**