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SOUTH AFRICAN RESERVE BANK
Financial Surveillance Department

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**Exchange Control Circular No. 14/2020**

## Statement on exchange control

The attention of Authorised Dealers in foreign exchange and Authorised Dealers in foreign exchange with limited authority is drawn to the further exchange control reforms announced by the Minister of Finance in the 2020 Medium Term Budget Policy Statement (MTBPS). A copy of the "Explanatory note on financial sector MTBPS announcements" is attached for ease of reference. Kindy refer to point 1., "Promoting investment: capital flow management" outlining the measures to make it easier to invest in South Africa.

Exchange Control Circular Nos. 15/2020 and 16/2020, in amplification of the foregoing, have been issued accordingly.

**Acting Head of Department: Financial Surveillance**

national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

**EXPLANATORY NOTE ON FINANCIAL SECTOR MTBPS ANNOUCEMENTS**

This note provides further details on the financial sector announcements made by the Minister of Finance in the MTBPS Speech on 28 October 2020.

## 1. PROMOTING INVESTMENT: CAPITAL FLOW MANAGEMENT

In order to support South Africa's growth as an investment and financial hub for Africa, the Minister of Finance (Minister) announced in the February 2020 Budget far-reaching reforms to modernise the capital flow management framework. These reforms will result in the phasing out of current Exchange Control Regulations to be replaced with new regulations under the Currency and Exchanges Act, 1933. In the meantime, Government will be accelerating the following measures to make it easier to invest in South Africa:

1. **Inward Listing instruments:** All debt, derivatives and exchange traded instruments referencing foreign assets, that are inward listed, traded and settled in Rand on South African exchanges, will be classified as domestic. The classification of all inward listed shares denominated in Rand remains domestic.
2. **Loop Structures for FDI purposes**: The full 'loop structure' restriction has been lifted to encourage inward investments into South Africa, subject to reporting to Financial Surveillance Department of the South African Reserve Bank (FinSurv) as and when the transaction is finalized. This reform will be effective from 1 January 2021 for companies, including private equity funds, provided that the entity is a tax resident in South Africa.
3. **Corporate foreign borrowings**: All bond and note issuances by South African corporates offshore (excluding SOCs) with recourse to South Africa, will be subject to framework and reporting conditions determined by the South African Reserve Bank, which will replace the current prior-approval process.

Treasury is engaging with industry associations and other stakeholders to explore measures to strengthen specific mechanisms to enhance SA as a Gateway into Africa, including the listing of non-Rand denominated instruments, collateral for derivative exposures, and possible mechanisms to enable financial services providers and asset managers to manage collective investment schemes of foreign assets from South

Africa. In this regard, a regulatory task team of key regulators including the Prudential Authority (PA), Financial Sector Conduct Authority (FSCA), Financial Intelligence Center (FIC) and the South African Revenue Services (SARS), will engage intensively with stakeholders to finalise proposals for possible announcement on Budget Day.

The South African Reserve Bank will provide further details of these proposals.

## 2. RETIREMENT REFORM AND FINANCIAL INCLUSION

### Annuitisation Requirement for Provident Funds

All NEDLAC constituencies have reached agreement for the annuitisation of provident funds to take effect in March 2021, to enable all members to continue to benefit from tax deductions on their contributions. The agreement also includes addressing other anomalies in the retirement industry, to ensure more appropriate and better value-for-money annuity products for low income workers. The emergence of hybrid annuities as an option for the default annuity addresses some of these concerns.

### Early Access to Retirement Savings

Retirement funds are designed primarily to promote life-cycle savings, and encourage individuals to save while working to provide an income when they retire. Treasury has received a number of proposals from taxpayers and some NEDLAC social partners, to enable limited pre-retirement withdrawals from retirement funds, especially during times of a disaster like the COVID-19 pandemic. Treasury has consulted with NEDLAC partners to introduce the necessary legislative amendments next year to allow for limited withdrawals under certain circumstances, but linked to mandatory preservation requirements.

There is also agreement at NEDLAC to accelerate the introduction of auto-enrolment into a retirement fund for all employed workers, as well as the establishment of a fund to cater for workers currently excluded from coverage, because their employers have not established their own retirement funds. This is an urgent intervention en route to the establishment of a comprehensive social security system under consideration at NEDLAC. Engagements are also underway between Government and social partners to resolve concerns with respect to the governance of umbrella funds. Announcements will be made after completion of further consultations within and outside NEDLAC.

### Proposed Review of Regulation 28

Government has initiated a process to review Regulation 28 to make it easier for retirement funds to increase their investment in infrastructure, should their board of directors opt to do so. This proposal follows from a number of comments from government, industry and labour, to encourage investment in infrastructure, particularly in times of low economic growth. A draft gazette will be released shortly for public comment, outlining components of Regulation 28 that are being proposed for review.

## Financial inclusion

The Minister of Finance will shortly release a draft policy paper to enhance financial inclusion, for public comment. The draft policy paper establishes a policy framework for financial inclusion, sketches an approach to implementation, and provides a basis on which the financial services sector, regulators, policy makers and all other stakeholders, will promote and support financial inclusion. The paper outlines what needs to be done to deepen financial inclusion for individuals, extend access to financial services for SMMEs and leverage a more diversified provider and distribution base for financial services in South Africa.

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