



South African Reserve Bank

Financial Surveillance Department

2020-08-13

Exchange Control Circular No. 8/2020**Macro-prudential limit for Authorised Dealers**

Authorised Dealers are advised that in order to address interpretational issues on the Macro-Prudential Limit Return, raised by Authorised Dealers and by their external auditors, the entire Section B.2(I) has been deleted and replaced with the following:

(I) Macro-prudential limit for Authorised Dealers**(i) Macro-prudential limit**

- (a) The macro-prudential limit is only applicable to Authorised Dealers and restricted Authorised Dealers who are not branch operations of foreign institutions.
- (b) Branches of foreign institutions operating as banks in South Africa are regulated by the Prudential Authority Department of the South African Reserve Bank in their entirety.
- (c) Authorised Dealers may acquire direct and indirect foreign exposure up to a macro-prudential limit of 25 per cent of their total liabilities, excluding total shareholder's equity.
- (d) It must be clearly understood that the methodology used by the Financial Surveillance Department in calculating the foreign

exposure should not be confused with the directives issued by the Prudential Authority of the South African Reserve Bank.

- (ii) African allowance
 - (a) Authorised Dealers are also allowed to invest an additional 5 per cent of their total liabilities, excluding total shareholder's equity, for expansion into Africa.
 - (b) The criteria applicable to institutional investors to determine whether an investment is classified as 'African', is similarly applicable to Authorised Dealers. See section H.(B)(ii)(b) of the Authorised Dealer Manual.
- (iii) Foreign exposure
 - (a) The Financial Surveillance Department defines foreign exposure for macro-prudential limit purposes as all foreign assets held where such assets are foreign currency denominated, except for the dispensations in (iv)(b) below, as well as foreign assets denominated in Rand, e.g. Rand denominated instruments issued offshore and inward listed instruments with a foreign classification. Foreign exposure will therefore, inter alia, include the following:
 - (aa) assets outside of South Africa. Transactions with CMA member countries should comply with section A.3(E) of the Authorised Dealer Manual.
 - (bb) claims on non-residents;
 - (cc) commodities;
 - (dd) deposits with foreign banks; and
 - (ee) inward listed debt and derivative instruments.

- (b) Inward listed shares are excluded from the definition of foreign exposure. See section H.(A)(ix) of the Authorised Dealer Manual for the definition of inward listed shares.

- (iv) Qualifying transactions
 - (a) The macro-prudential limit is applicable to transactions which, inter alia, include the following:
 - (aa) the underwriting of foreign currency denominated bonds issued by local entities as well as South African Government bonds;
 - (bb) the issuing of guarantees in favour of non-residents;
 - (cc) foreign currency lending to non-residents;
 - (dd) foreign portfolio investments in equity, debt and derivative instruments;
 - (ee) participation in foreign syndicated loans by Authorised Dealers. An Authorised Dealer may participate in foreign syndicated loans regardless of whether the borrower is a resident or non-resident, provided that the Authorised Dealer taking up the syndicated portion of the loan is within its macro-prudential foreign exposure limit;
 - (ff) any exposure to CMA countries. For the completion of the Macro-Prudential Foreign Exposure Limit Return CMA countries are treated as non-residents;
 - (gg) any lending to international headquarter companies as outlined in section B.2(D)(ix) of the Authorised Dealer Manual;
 - (hh) any lending to a DTMC as outlined in Section B.2(E) of the Authorised Dealer Manual; and

- (ii) all foreign intra-group bank exposures should be included in the calculation of the macro-prudential limit, however, the netting of these foreign intra-group exposures is allowed as provided for in the Macro-Prudential Foreign Exposure Limit Return.

- (b) The following transactions are excluded from the macro-prudential limit:
 - (aa) foreign exposures directly related to infrastructural development by the Authorised Dealer;

 - (bb) outward foreign direct investment by Authorised Dealers, including the acquisitions in terms of section 52 of the Banks Act, 1990, (Act No. 94 of 1990);

 - (cc) CFC account balances; and

 - (dd) foreign currency denominated facilities made available to South African companies in respect of:
 - (1) bona fide foreign direct investments;

 - (2) infrastructural development;

 - (3) trade finance facilities relating to the import and export of goods from South Africa; and

 - (4) working capital loan facilities to residents.

- (v) Reporting requirements
 - (a) Macro-Prudential Foreign Exposure Limit Return
 - (aa) Authorised Dealers must complete and submit the Macro-Prudential Foreign Exposure Limit Return as at month

end, under cover of an application, to the Financial Surveillance Department by the 20th working day of the following month.

- (bb) The amounts reflected on the applicable Prudential Authority Department's BA Returns, under the specified line items, must be populated when completing the Macro-Prudential Foreign Exposure Limit Return.
 - (cc) The Macro-Prudential Foreign Exposure Limit Return must reflect both gross and net derivative figures, however, the gross derivative figures are only reported for disclosure purposes and do not form part of the calculation of the macro-prudential limit.
 - (dd) The format of the Macro-Prudential Foreign Exposure Limit Return may be downloaded from the South African Reserve Bank's website: www.resbank.co.za, by following the links: Home>Regulation and supervision>Financial surveillance and exchange controls>Prudential returns>Macro-prudential foreign exposure limit return.
- (b) Reporting on over-exposure position
- (aa) In cases where the macro-prudential limit has been exceeded, an Authorised Dealer must provide:
 - (1) an explanation for the over-exposure; and
 - (2) a clear indication of how and by when it intends to adjust the foreign exposure to fall within the applicable limit.
 - (bb) Should an Authorised Dealer exceed the macro-prudential limit, no further direct and indirect foreign exposure may be acquired.

- (c) Authorised specimen signatures list
 - (aa) On an annual basis (January of each year), a list of the names, title and the specimen signatures of officials authorised to sign the Macro-Prudential Foreign Exposure Limit Returns must be submitted to the Financial Surveillance Department.
 - (bb) The list should include the email addresses of at least two senior officials to whom urgent correspondence relating to the Macro-Prudential Foreign Exposure Limit Returns could be referred to, if needed.
 - (cc) Should there be any changes to the list of signatories, the Financial Surveillance Department must be timeously informed.
- (d) Audit reports
 - (aa) Authorised Dealers are required, as part of their financial year-end audit, to obtain an audit report from their external auditors verifying and confirming the amounts on the last submitted Macro-Prudential Foreign Exposure Limit Return at year end.
 - (bb) The audit report must be submitted to the Financial Surveillance Department, under cover of an application, within a maximum period of six months after the financial year end.
 - (cc) The format of the audit report may be downloaded from the South African Reserve Bank's website: www.resbank.co.za, by following the links: Home>Regulation and supervision>Financial surveillance and exchange controls> Auditors reports and representation letters>Macro-prudential limit auditor's report.

The amended Currency and Exchanges Manual for Authorised Dealers may be accessed on the SARB website: www.resbank.co.za by following the links: Home>Regulation and supervision>Financial surveillance and exchange controls>Currency and exchanges documents.

Head of Department: Financial Surveillance