P O Box 3125 Pretoria 0001 South Africa
370 Helen Joseph Street Pretoria 0002
+27 12 313 3911 / 0861 12 7272
www.resbank.co.za

South African Reserve Bank
Financial Surveillance Department

14/6/2_2022

2022-02-23

**Exchange Control Circular No. 10/2022**

## South African institutional investors

We refer to Exchange Control Circular No. 4/2022 and the announcement made by the Minister of Finance in Annexure F of the 2022 Budget Review, wherein it was mentioned that with effect from 2022-02-23, the prudential limits of 30 per cent and 40 per cent, respectively as well as the African allowance of 10 per cent have been combined into a single limit of 45 per cent of total retail assets under management, applicable to all qualifying institutional investors.

Institutional investors should implement control measures to ensure that the prudential limit is not exceeded at any point in time.

It should be noted that for statistical purposes the reporting of the African exposure on the quarterly asset allocation report will remain extant.

For the submission of the quarter end December 2021 quarterly asset allocation reports, the limits of 30 per cent and 40 per cent respectively as well as the 10 per cent African allowance, will still be applicable.

Furthermore, institutional investors may open foreign currency accounts with Authorised Dealers for the purpose of obtaining offshore exposure in terms of the prudential limit. These accounts may be funded by either converting Rand to foreign currency through an Authorised Dealer or by accepting foreign currency deposits emanating from the disinvestment proceeds of foreign assets. In this regard, institutional investors that currently have customer foreign currency accounts will have three months to convert same to foreign currency accounts in terms of the aforementioned dispensation.

The following amendments to the Currency and Exchanges Manual for Authorised Dealers (Authorised Dealer Manual) are outlined:

**Section A.1**

The following definition has been amended as follows:

**Foreign currency account** means a foreign currency account conducted by residents (natural persons and institutional investors only) and non-residents in the nostro administration of Authorised Dealers in terms of the provisions of the Authorised Dealer Manual or a specific authority granted by the Financial Surveillance Department.

**Section B.2(C)(iii)**

The note under this subsection has been amended to read as follows:

Note: This dispensation should not be confused with portfolio investments acquired by institutional investors in terms of the prudential limit.

**Section B.2(G)(vi)**

The reference to 'foreign investment allowances' has been replaced with 'prudential limits'.

(vi) Institutional investors and Authorised Dealers must be aware that in terms of the 'look-through' principle, any offshore acquisitions held indirectly via the local private equity fund must be marked off against their respective prudential limits.

**Section B.2(H)(i)(b)**

The words ‘applicable prudential limits’ have been amended to read ‘prudential limit’ as follows:

(b) Institutional investors may invest funds offshore up to the prudential limit and subject to the requirements as outlined below.

**Section B.2(H)(iv)(a)(aa)**

The prudential limits of 30 per cent and 40 per cent, respectively as well as the African allowance of 10 per cent have been combined into a single limit of 45 per cent. This subsection has been deleted and replaced with the following:

(iv) Prudential limit

(a) The foreign exposure of retail assets may not exceed:

(aa) 45 per cent in the case of pension funds; the linked and non-linked business of life insurers; CIS managers; and discretionary financial services providers registered as institutional investors with the Financial Surveillance Department.

**Section B.2(H)(iv)(d)**

A new subsection (d) has been added and the existing subsection (d) has been renumbered (e) as follows:

(d) For statistical purposes the quarterly asset allocation report should continue to be completed in its existing format, indicating the investments in offshore as well as the African assets separately. The combined exposure, i.e. offshore and African, should not exceed the prudential limit of 45 per cent of retail assets under management. In terms of investments in African assets, the following is applicable:

(aa) African debt encompasses debt securities issued and listed on a South African exchange by African governments, African public entities, African local authorities, African development agencies and by non-African development institutions where the funds raised are earmarked for use in Africa.

(bb) African assets can be acquired as follows:

(1) directly by acquiring foreign currency denominated portfolio assets in Africa through foreign currency transfers from South Africa. A collective investment scheme in South Africa sanctioned by the Financial Sector Conduct Authority is preferred in instances where the institutional investor wishes to obtain direct African exposure by means of a pooling arrangement (e.g. an African fund set up specifically by a managing institution);

(2) indirectly by acquiring approved inward listed debt instruments listed on a South African exchange and classified as ‘African’. (See (d)(aa) above for the criteria for ‘African’ classification);

(3) indirectly, on application to the Financial Surveillance Department through an Authorised Dealer, through a foreign registered fund mandated to invest into Africa. The foreign registered fund should be mandated to invest at least 75 per cent of funds under management into Africa. A copy of the mandate or prospectus must accompany such application; or

(4) indirectly, on application to the Financial Surveillance Department through an Authorised Dealer, through investments in instruments issued by African entities that are listed on non-African exchanges to raise funds earmarked for use in Africa.

(e) Compliance with the prudential limit does not preclude an institutional investor from also having to comply with any relevant prudential regulations as administered by the Financial Sector Conduct Authority.

**Section B.2(H)(v) to (xi)**

Subsection (v) has been deleted and subsections (vi) to (xi) have been renumbered (v) to (x).

**Section B.2(H)(vii)(h), (n) and (r)**

The word ‘respective’ has been deleted under subsections (h), (n) and (r).

(h) Institutional investors may participate in instruments issued by local entities in the offshore market whether priced in Rand or foreign currency on condition that the requirements of the Financial Sector Conduct Authority are complied with. These investments will be subject to the prudential limit.

(n) Institutional investors must take cognisance that any position held as a result of active currency management transactions, not resulting in the actual pay away or receipt of currency (i.e. the ‘in-between trades’) is regarded as foreign currency exposure and must accordingly be marked off against the prudential limit as well as being accounted for in the quarterly asset allocation reports.

(r) Should an institutional investor exceed the prudential limit, no further funds may be transferred abroad or foreign classified investments made either directly or indirectly.

**Section B.2(H)(vii)(p)**

Subsection (p) has been deleted and replaced as follows:

(p) Institutional investors may open foreign currency accounts with Authorised Dealers for the purpose of obtaining offshore exposure. These accounts may be funded by either converting Rand to foreign currency or by accepting foreign currency deposits emanating from the disinvestment proceeds of foreign assets. Institutional investors are permitted to retain funds in the foreign currency accounts without the obligation to convert these funds into Rand, provided the account balances form part of the prudential limit and are reflected in the quarterly asset allocation reports.

**Section B.2(H)(viii)(a)(aa) and (jj)**

The word ‘respective’ has been deleted under subsections (a)(aa) and (jj) and the reference under (jj)(ii) has been amended to read (vi)(r).

(aa) The quarterly asset allocation reports provide the primary mechanism for monitoring compliance with the prudential limit.

(jj) In cases where the prudential limit has been exceeded, the institutional investor must as part of the quarterly asset allocation report provide:

(1) an explanation for the over-exposure; and

(2) a clear indication of how and by when they intend to adjust the foreign exposure to fall within the prudential limit. See (vi)(r) above regarding further offshore investments if an institutional investor has exceeded the prudential limit.

**Section D.1(B)(ii)**

The word ‘respective’ has been deleted under subsection (ii).

(ii) Institutional investors, as defined in section B.2(H) of the Authorised Dealer Manual, must take cognisance that any position held as a result of entering into the ‘in-between trades’ is regarded as foreign exposure and must accordingly be marked off against the prudential limit as well as being accounted for in the quarterly asset allocation reports.

**Section E.(B)(i)(a)(hh)**

Subsection (hh) has been deleted as institutional investors may now open foreign currency accounts.

**Section E.(B)(ii)(a)(gg) to (kk)**

Subsection (gg) has been deleted as institutional investors may now open foreign currency accounts. Subsections (hh) to (kk) has been renumbered (gg) to (jj).

**Section E.(C)(ii)**

A new subsection has been added as follows:

(ii) Foreign currency accounts may be opened for institutional investors for the purpose of obtaining offshore exposure in terms of the prudential limit. See subsection B.2(H)(vi)(p) of the Authorised Dealer Manual.

**Section G.(K)(v)(a)(bb)**

The words ‘their prudential limits’ have been amended to ‘the prudential limit’.

(bb) the shares/securities will be traded for cash only to non-residents and qualifying institutional investors subject to the prudential limit;

**Section I.3(E)(i)(a)**

The word ‘respective’ has been deleted under subsection (i)(a):

(a) South African private individuals may only participate in the foreign bond and/or note issuances utilising their foreign capital allowance. Similarly, qualifying South African institutional investors may participate in the foreign bond and/or note issuances in terms of the prudential limit.

The amended Authorised Dealer Manual and guidelines document may be accessed on the South African Reserve Bank website, www.resbank.co.za by following the links: Home>What we do>Financial Surveillance>Financial Surveillance documents.

**Head of Department: Financial Surveillance**