

Exchange Control Department

2010-04-15

Exchange Control Circular No.12/2010

Forward foreign exchange market

Authorised Dealers are advised that following representations made, the Minister of Finance has granted approval to Authorised Dealers to provide active currency management facilities to their South African resident and non-resident clients (excluding transactions by private individuals trading on online platforms). This dispensation only pertains to foreign currency as an underlying and does not, therefore, include any other exposures.

Authorised Dealers are reminded that where South African residents, with an exposure as defined in subsection D.1(C)(i)(a) of the Exchange Control Rulings, wish to actively manage their foreign exchange exposure by exiting from their currency hedges prior to the maturity date of the original period not exceeding six months; surrenders, early take-ups or extensions may be allowed, subject to settlement taking place by means of a counter contract or swap. Any profits or losses arising from such actions should be regarded as being for the client's account and the rate applied to the extension of such contracts may under no circumstances be adjusted to incorporate the relative profit or loss.

Authorised Dealers may grant forward cover to their South African resident clients with an underlying foreign exchange exposure, without the necessity to view suitable documentary evidence at the time of entering into the contract, provided that the duration of the exposure is less than six months. However, on maturity of the contract and where actual pay away or receipt of foreign currency occurs, documentary evidence substantiating the firm and ascertainable exposure to

currency must still be provided by the client. Furthermore, the endorsement of documentation and reporting of these transactions in terms of the Cross-Border Foreign Exchange Transaction Reporting System will be the responsibility of the paying away bank.

Forward contracts with a duration exceeding six months may only be established by Authorised Dealers viewing suitable documentation confirming the underlying exposure, at time of establishment or alternatively within 14 days of establishing such contracts. In these instances **as well as for spot transactions**, the endorsement of documentation **and reporting of transactions in terms of the Cross-Border Foreign Exchange Transaction Reporting System** will remain the responsibility of the converting bank.

Settlements in terms of forward cover taken out by clients not resulting in the pay away or receipt of currency, i.e., the so-called “in-between trades”, must take place in Rand.

Institutional investors, as defined in Section B.2(B)(iii) of the Exchange Control Rulings, 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 exposure and must, accordingly, be marked off against their respective foreign portfolio investment allowances as well as being accounted for in the quarterly asset allocation reports.

Authorised Dealers facilitating the “in-between trades” must furnish Exchange Control with the following reports on a monthly basis:

- Summary beneficial holdings trading report indicating volumes, value and ownership differentiating between the following investor classes: corporates, individuals, institutional investors and non-residents; and
- a report depicting the forward rates applicable to each contract concluded, supported by parallel graphs of trading volumes, number of contracts and value,

specifically highlighting the impact of the “in-between trades” on the foreign exchange market and the exchange rate of the Rand.

The reports must be submitted to SARB-HEDGE@resbank.co.za, specifying “Active Currency Management Report” in the Subject field by the 7th of the following month. The summary beneficial holdings trading report must only reflect the “in-between trades” where the client does not convert Rand into foreign currency and vice versa, in terms of the contract forward rate but decides to rather settle the contract in Rand. Therefore, the reporting must exclude legitimate settlements in Rand, e.g. export proceeds. A template setting out the reporting format is attached for reference purposes.

In view of the above, Sections A.3, B.2(B)(iii)(c), D.1 and D.2 of the Exchange Control Rulings have been amended accordingly.

Replacement pages of the Exchange Control Rulings, incorporating the relevant amendments, are attached hereto.

Head of Department