



South African Reserve Bank
Financial Surveillance Department

2018-02-21

Exchange Control Circular No. 3/2018

Statement on exchange control

The attention of Authorised Dealers 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 2018 Budget, a copy of an extract of which is attached for ease of reference.

A number of Circulars, in amplification of the foregoing, have also been issued today.

A handwritten signature in black ink, appearing to read 'E Mazibuko'.

Head of Department: Financial Surveillance

Further steps to manage capital flows and encourage investment

Government is taking additional steps to manage capital flows and support investment.

Managing capital flows

- **Review of significant and strategic transactions:** To support cross-border investment and increase transparency, the National Treasury will release a paper later this year on a proposed policy framework for the review and approval of complex cross-border transactions.
- **Increasing the prudential limit:** To increase investment in diverse assets, the offshore limit for funds under management by institutional investors is increased by 5 percentage points for all categories, including the African allowance.
- **Reforming loop structures:** Loop structures take place when South Africans invest in South Africa via an entity in another country. Such structures may be set up for genuine reasons, for example, when the entity has investors from around the world. But sometimes these structures are set up to avoid tax. The loop structure provision is increased from 20 per cent to a maximum of 40 per cent for bona fide business investment, growth and expansion transactions. The current minimum requirement of 10 per cent is abolished. This applies to companies, including private equity funds, provided that the entity is a tax resident in South Africa. Loop structures above the prescribed threshold will require Reserve Bank approval with due consideration to transparency, tax, equivalent audit standards and governance.
- **Modernising holding company (HoldCo) policy:** The policy for holding companies will be extended to help South African companies expand, in particular, this will include financial services companies. Transfers to holding entities will be increased from R2 billion to R3 billion for listed companies and from R1 billion to R2 billion for unlisted companies, subject to Reserve Bank reporting requirements.

Inward listings

The inward listing policy is aimed at deepening South Africa's capital markets, but it may create distortions. In 2018, the National Treasury will release a comprehensive inward listings review paper, which will address various matters, including the standards of reporting and information provision, company track records, arms-length arrangements, valuation of the acquiring company, management arrangements, funding arrangements, deployment of listing proceeds, due diligence, audit history, stakeholder protection, better treatment of holders of securities, and confidence among market participants.