



South African Reserve Bank
Financial Surveillance Department

2019-12-13

Exchange Control Circular No. 19/2019

South African Domestic Treasury Management Company dispensation for African and offshore operations

Following the announcement by the Minister of Finance in the 2019 Medium Term Budget Policy Statement, Authorised Dealers are advised that henceforth the holding company dispensation (HoldCo) will be termed the 'Domestic Treasury Management Company' (DTMC) dispensation. For the avoidance of doubt, these companies will fall within the definition for 'Domestic Treasury Management Company' in section 1 of the Income Tax Act which came into operation on 2013-02-27 and became applicable in respect of years of assessment commencing on or after the aforementioned date.

In this regard, previously registered HoldCos will now be designated as DTMCs.

Furthermore, Authorised Dealers are advised that the DTMC dispensation has been extended to companies operating in the financial services sector. In this regard, the following amendments have been made to the Currency and Exchanges Manual for Authorised Dealers:

Section A.1

The definition of HoldCo has been deleted and replaced with the following:

DTMC means a South African holding company for African and offshore operations, which is incorporated or deemed to be incorporated in South Africa and that has its place of effective management in South Africa.

Section B.2(E)**(i) Listed companies**

- (a) Companies listed on a South African exchange may establish one subsidiary within the group known as a DTMC to hold African and offshore operations for foreign direct investment purposes.
- (b) For the purposes of this section, the DTMC is treated as a non-resident company for reporting and monitoring purposes even though it is a South African tax resident, which is incorporated in South Africa, has its place of effective management in South Africa and will be subject to the following conditions:
 - (aa) the DTMC must register with the Financial Surveillance Department;
 - (bb) at the time of registration, the following information must be furnished to the Financial Surveillance Department:
 - (1) the name(s) of the offshore target company(ies);
 - (2) description of what type of business the DTMC will be involved in;
 - (3) jurisdictions in which the offshore companies are operating in;
 - (4) details of the envisaged investment;
 - (5) the percentage equity interest and voting rights acquired in the foreign target entity; and
 - (6) overview of the treasury management operations.
 - (cc) the DTMC must be a South African tax resident, be incorporated in South Africa and have its place of effective management in South Africa;

- (dd) the treasury management operations and treasury accounts of the DTMC must be held locally with an Authorised Dealer;
- (ee) the DTMC will remain a wholly owned subsidiary of the South African parent company;
- (ff) the Authorised Dealer concerned may authorise transfers from the South African parent company to the DTMC up to R3 billion per calendar year in respect of new investments, expansions as well as other transactions of a capital nature. These transfers should not be undertaken to avoid tax;
- (gg) in addition to (ff) above, amounts of up to 25 per cent of the listed company's market capitalisation will, on application to the Financial Surveillance Department be considered, provided that the DTMC is able to demonstrate benefits to South Africa;
- (hh) the DTMC will be allowed to freely raise and deploy capital offshore, provided that any recourse is limited to the DTMC and its offshore subsidiaries;
- (ii) additional domestic capital and guarantees will be allowed to fund bona fide foreign direct investments in the same manner as the current foreign direct investment allowance;
- (jj) the DTMC will be allowed to operate as a cash management centre for South African companies. Cash pooling is allowed, subject to the following conditions:
 - (1) local income such as fees and/or interest payable to the DTMC generated from cash management is freely transferable offshore;
 - (2) excess cash derived from South African operations may be placed in the DTMC up to the current annual limit together with cash derived from foreign operations;

- (3) cash may be withdrawn from the DTMC for funding foreign and/or domestic operations;
- (4) intra-day cash pooling transactions should be dealt with on a funds-in funds-out basis. Such transactions must be reported under category 297 with the subject field indicator to read 'DTMC' and the registration number of the DTMC must be annotated in the description field. The application number of the Authorised Dealer and the authority reference number issued by the Financial Surveillance Department, where applicable, must be supplied in the applicable fields; and
- (5) inward loans within the group with a tenor of at least one month from the DTMC to local beneficiaries may be approved by Authorised Dealers provided such transactions are permissible in terms of the Authorised Dealer Manual and should be reported accordingly.
- (kk) the DTMC may choose its functional currency and operate a foreign currency account and a Rand denominated account for operational expenses. These accounts must be operated on a non-resident basis;
- (ll) any lending by an Authorised Dealer to the DTMC will form part of the Authorised Dealer's macro-prudential limit;
- (mm) the DTMC may enter into hedging transactions with foreign banks and/or Authorised Dealers without recourse to South Africa. Where hedging transactions are entered into with Authorised Dealers, the provisions of section D.2 of the Authorised Dealer Manual must be adhered to;
- (nn) certain reporting requirements as outlined in section B.4 of the Operations Manual as mentioned in section J.(C) of the Authorised

Dealer Manual will have to be adhered to as a result of the nature of these transactions;

- (oo) the DTMC may not settle any transactions on behalf of any entities within the group. Each entity must settle its own obligations. It may also not settle transactions on behalf of any third party;
- (pp) applications for the establishment of jointly owned DTMCs will be considered by the Financial Surveillance Department; and
- (qq) the management of the DTMC should, within three months after the financial year end, confirm to the Financial Surveillance Department that the conditions relevant to the DTMC structure have been adhered to and that the current annual limit has not been exceeded.

(ii) Unlisted companies

- (a) Unlisted companies may establish one subsidiary within the group as a DTMC to hold African and offshore operations for foreign direct investment purposes.
- (b) For the purposes of this subsection, the DTMC is treated as a non-resident company and is subject to the following conditions:
 - (aa) the DTMC must register with the Financial Surveillance Department;
 - (bb) at the time of registration, the following information must be furnished to the Financial Surveillance Department:
 - (1) the name(s) of the offshore target company(ies);
 - (2) description of what type of business the DTMC will be involved in;
 - (3) jurisdictions in which the offshore companies are operating in;

- (4) details of the envisaged investment;
 - (5) the percentage equity interest and voting rights acquired in the foreign target entity; and
 - (6) overview of the treasury management operations.
- (cc) the DTMC must be a South African tax resident, be incorporated in South Africa and have its place of effective management in South Africa;
- (dd) the treasury operations and treasury accounts of the DTMC must be held locally with an Authorised Dealer;
- (ee) the DTMC will remain a wholly owned subsidiary of the South African parent company;
- (ff) the Authorised Dealer concerned may authorise transfers from the parent company to the DTMC up to R2 billion per calendar year in respect of new investments, expansions as well as other transactions of capital nature;
- (gg) additional amounts may be considered on application to the Financial Surveillance Department;
- (hh) the DTMC will be allowed to freely raise and deploy capital offshore, provided that any recourse is limited to the DTMC and its offshore subsidiaries;
- (ii) additional domestic capital and guarantees will be allowed to fund bona fide foreign direct investments in the same manner as the current foreign direct investment allowance;
- (jj) the DTMC will be allowed to operate as a cash management centre for South African entities. Cash pooling is allowed, subject to following conditions:

- (1) local income such as fees and/or interest payable to the DTMC generated from cash management is freely transferable offshore;
 - (2) excess cash derived from South African operations may be placed in the DTMC up to the current annual limit together with cash derived from foreign operations;
 - (3) cash may be withdrawn from the DTMC for funding foreign and/or domestic operations;
 - (4) intra-day cash pooling transactions should be dealt with on a funds-in funds-out basis. Such transactions must be reported under category 297 with the subject field indicator to read 'DTMC' and the registration number of the DTMC must be annotated in the description field. The application number of the Authorised Dealer and the authority reference number issued by the Financial Surveillance Department, where applicable, must be supplied in the applicable fields; and
 - (5) inward loans within the group with a tenor of at least one month from the DTMC to local beneficiaries may be approved by Authorised Dealers provided such transactions are permissible in terms of the Authorised Dealer Manual and should be reported accordingly.
- (kk) the DTMC may choose its functional currency and operate a foreign currency account and a Rand denominated account for operational expenses. These accounts must be operated on a non-resident basis;
- (ll) any lending by local banks to the DTMC will form part of the Authorised Dealer's macro-prudential limit;
- (mm) the DTMC may enter into hedging transactions with foreign banks and/or Authorised Dealers without recourse to South Africa. Where hedging transactions are entered into with Authorised Dealers, the

provisions of section D.2 of the Authorised Dealer Manual must be adhered to;

(nn) certain reporting requirements as outlined in section B.4 of the Operations Manual as mentioned in section J.(C) of the Authorised Dealer Manual will have to be adhered to as a result of the nature of these transactions; and

(oo) the management of the DTMC should, within three months after the financial year end, confirm to the Financial Surveillance Department that the conditions relevant to the DTMC structure have been adhered to and that the current annual limit has not been exceeded.

(iii) Financial services sector

(a) Companies operating in the financial services sector (i.e., registered banks and insurance companies) may establish one subsidiary within the group as a DTMC to hold African and offshore operations for foreign direct investment purposes and domestic treasury management operations.

(b) The DTMC will be subject to the following conditions:

(aa) an application must be submitted to the Financial Surveillance Department through an Authorised Dealer;

(bb) the DTMC must be a South African tax resident, be incorporated in South Africa and have its place of effective management in South Africa;

(cc) as an exception to (bb) above, until 2018-12-31, a treasury management company that was in existence prior to 2018-02-21 and was incorporated in a foreign tax jurisdiction and the place of effective management of that company is in South Africa, was considered for the DTMC dispensation;

- (dd) the Financial Surveillance Department may authorise transfers from the parent company to the DTMC up to R3 billion per calendar year in respect of new investments, expansions as well as other transactions of capital nature. There will be no restriction up to this amount on transfers in and out of the DTMC, provided that such transfers are not undertaken to avoid tax;
- (ee) additional amounts may be considered on application to the Financial Surveillance Department and the Prudential Authority, however, the additional amounts of up to 25 per cent of the listed company's market capitalisation mentioned in subsection (i)(b)(gg) above will not apply;
- (ff) the treasury operations and treasury accounts of the DTMC must be held locally with an Authorised Dealer;
- (gg) the DTMC may choose its functional currency and operate a foreign currency account and a Rand denominated account for operational expenses. These accounts must be operated on a non-resident basis;
- (hh) the DTMC will remain a wholly owned subsidiary of the South African parent company;
- (ii) any lending by an Authorised Dealer to the DTMC will form part of the Authorised Dealer's macro-prudential limit;
- (jj) certain reporting requirements as outlined in section B.4 of the Operations Manual as mentioned in section J.(C) of the Authorised Dealer Manual will have to be adhered to as a result of the nature of these transactions; and
- (kk) the management of the DTMC should, within three months after the financial year end, confirm to the Financial Surveillance Department that the conditions relevant to the DTMC structure have been adhered to and that the current annual limit has not been exceeded.

The amended Manuals and guideline documents may be accessed on the South African Reserve Bank website: www.reservebank.co.za by following the links: Home>Regulation and supervision>Financial surveillance and exchange controls>Currency and exchanges documents.


S E Mazibuko

Head of Department: Financial Surveillance