



national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

Further information on investment and prudential regulatory announcements in 2011 MTBPS

The Minister of Finance announced several investment and prudential reforms during the Medium Term Budget Policy Statement on 25 October 2011, both in his speech and the box on page 17 of the main document.

The reforms announced by the Minister are aimed at promoting investment into South Africa by encouraging capital markets development, enabling more competition and reducing the cost of doing business. The approach is aimed at further improving market efficiencies, whilst at the same time managing potential risks from foreign exposure and the volatile international environment.

The Minister noted that the South African Reserve Bank (“SARB”), Financial Services Board (“FSB”) and the Johannesburg Stock Exchange (“JSE”) would provide more details after his announcement. The SARB and JSE have already published their first set of details, but will be publishing more detail in the next month. The National Treasury provides an overview of the details to be provided by the regulators.

Inward Listings

In order to promote the development of the South African capital markets, the Minister announced that all listed shares on the JSE, traded and settled in rand shall be classified as ‘domestic assets’, for the purpose of trading on the JSE and inclusion in its indices. Details on the revision of indices will be provided by the JSE in due course as it “will take time to work through the practical steps to implement this”, as noted in their public statement (available at www.jse.co.za) published on 25 October 2011. Note that this new dispensation will not affect companies currently classified as ‘domestic’, which have a primary listing on a foreign exchange (e.g. so called ‘London 5’), which will continue to be included in the indices on the current basis.

This initiative is meant to improve South Africa’s position as a financial gateway into Africa. However, in order to balance between capital market growth and development and the objective of managing exposure to foreign risk, prudential institutions would still be required to report their foreign exposure to regulatory authorities subject to criteria that will be developed by Treasury, SARB and the FSB. This proposal will be implemented as soon as consultations between the Treasury and all the above regulators are completed.

Money Remittances

In an effort to promote competition and reduce the cost of remittances to neighbouring and other countries, ownership restrictions on international participation in Authorised Dealers in Foreign Exchange with Limited Authority (“ADLAs”) i.e. foreign exchange bureaus, will be removed. In addition to this, the requirement for money remittance agencies to partner existing authorised dealers in order to do remittance business will no longer be obligatory. The Reserve Bank has completed the relevant circulars to this proposal and the dispensation will become effective once all regulatory and reporting requirements have been finalised.

Trade facilitation

Barriers to trade are also eased; by allowing corporates to cover forward (using forward exchange contracts) up to 75 per cent of budgeted import commitments or export accruals in respect of the forthcoming financial year without an application to the SARB. Advance payments for capital goods will now be allowed for up to 50 per cent of ex-factory cost of goods to be imported from the current 33.3 per cent. Furthermore, authorised dealers will be allowed to extend previously approved guarantees. Regulations to enable more modern cross-border payments will also be implemented (e.g. on internet payments).

Corporates

In order to cut red-tape, simplify and reduce the administrative costs of doing business for corporates, corporates will be able to top up capital in their offshore business from South Africa. Criteria will be relaxed for corporates’ wishing to invest outside their current line of business. Transactions which result in loop structures not exceeding a threshold of 20 per cent equity, and/or voting rights whichever is higher, in the foreign target entity, will be processed by authorised dealers without the need for prior approvals.

Individuals

With regard to individuals the annual R4 million foreign investment allowance plus the R1 million current single discretionary allowance will be consolidated into one R5 million foreign investment allowance per year. As such, various other current limits applicable to individuals e.g. alimony, wedding and travel allowance etc, will fall away.

Furthermore, in order to eliminate the bias against residents compared to non-residents, the SARB will consider investments by residents (and estates) for applications in excess of the R5 million allowance, subject to strict criteria related to appropriate disclosure requirements (on foreign assets and income), tax compliance and market conditions.

The Reserve Bank and FSB will provide further details on their websites (www.resbank.co.za and www.fsb.co.za)