Further steps on exchange control reform – supporting investment and competitiveness

Government is moving ahead with reforms to implement a macroprudential risk-based approach to the management of foreign exposure.

The strength of our regulatory system enables Government to make further exchange control reform announcements in order to enable international firms to make investments through South Africa to the rest of Africa and further enhance opportunities for offshore portfolio diversification for resident investors.

The ability of residents to invest offshore will also ensure a steady inflow of dividends into South Africa and sustains the country's ability to finance its current account deficit from a "local" base. Moreover, since South Africa subscribes to the worldwide income basis of taxation, the income earned from such investments (including rental, interest and foreign dividend income) will be taxable in South Africa, yielding fiscal benefits for the country.

Gateway into Africa – encouraging global diversification from a domestic base
The current regulatory framework has tax and exchange control aspects which are inhibitive to international headquarter companies seeking to leverage South Africa's infrastructure and skills base as a means of investing in the rest of the continent.

In order to complement the proposals contained in recent tax law amendments on international headquarter companies, it is proposed that qualifying international headquarter companies be allowed to raise and deploy capital offshore without exchange control approval. This regime will be effective from 1 January 2011, in line with the implementation date for the tax proposals.

Modernising the prudential framework for private and public pension funds
The National Treasury commenced a process in the 2010 Budget to update Regulation 28 of the Pension Funds Act, which was last amended in 1998.In response to the draft released with the 2010 Budget, and after receiving 31comments, the process of updating is nearly complete, and a second draft will be published very shortly. The new version of the regulation will ensure that; (i) the regulatory response is proportionate to the specific risks identified; (ii) asset categories with similar/equivalent risks should have similar/equivalent limits; (iii) investment in riskier assets should not be banned outright, but the risks should be mitigated; and (iv) the true nature of the asset should be reported. Government will also ensure that the investment framework for public pension funds like GEPF are updated in line with Regulation 28 and current institutional limits.

Removing controls on emigrant blocked assets
South African emigrants are currently allowed to remit up to R8 million of capital offshore upon emigration. The rest of the assets are blocked and can only be released upon the payment of a 10 percent exit levy.

Treasury proposes releasing emigrants' blocked assets without any exit levy applying to free those assets. This would support reforms aimed at curbing the excessive appreciation of the domestic currency and would enable the transfer of emigrant assets to residents.

Further reforms on exchange control limits on individuals
It is proposed that the R4 million offshore investment limit for individuals, which is a lifetime limit, be increased to R4 million per annum, subject to compliance with all tax and financial integrity legislation. Investments above the proposed threshold, including offshore properties, would require the approval of the Financial Surveillance Department of the South African Reserve Bank.

In addition, the single discretionary allowance will be increased from R750 000 to R1 million.

The Reserve Bank will publish further details on these reforms in due course.