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Website annexure to the 2013 Budget Review

Gateway to Africa and other reforms

■ **Helping South African companies expand internationally**

The proposals outlined below are intended to support South African companies that want to expand into the rest of Africa and offshore, which will boost local tax revenue, dividends, competitiveness and jobs, while supporting economic growth and regional integration across the continent.

With over 1 billion people, the African continent presents substantial economic opportunities for South Africa. Between 2007 and 2011, South African companies undertook nearly 1 000 new investments into 36 African countries, including Nigeria, Zambia, Mozambique, Zimbabwe, Kenya, Botswana and Angola.

In 2012, Africa accounted for 17.6 per cent¹ of South Africa's total exports. These exports are often routed through the African subsidiaries of South African firms.

South African companies also have opportunities to partner with advanced economies and to invest in high-growth economies in Asia and South America. As a member of BRICS (Brazil, Russia, India, China), South Africa is well placed to create a platform for African investment.

Gateway subsidiary for African and offshore operations

The National Treasury proposes a special type of South African corporate holding company, registered with the Financial Surveillance Department of the Reserve Bank. Each Johannesburg Stock Exchange listed entity will be entitled to establish one subsidiary to hold African and offshore operations (HoldCo), which will not be subject to foreign exchange restrictions. This will incentivise companies to manage their African and offshore operations from South Africa, maximising the benefits to South Africa's economy. Following a pilot, this dispensation may be extended to other entities.

¹ Preliminary South African Revenue Service figures.

The HoldCos will be subject to the following conditions:

- They must operate as South African tax residents, and be incorporated and effectively managed and controlled in South Africa.
- Transfers from the parent company to HoldCo will be allowed up to R750 million per year. Additional amounts may be considered on application to the Reserve Bank.
- HoldCos will be allowed to freely raise and deploy capital offshore, provided these funds are without South African guarantees. Additional domestic capital and guarantees will be allowed on funding genuine foreign direct investment (FDI) in the same manner as the current FDI allowance.
- HoldCos will be allowed to operate as cash management centres for South African multinationals. Cash pooling will be allowed without any restrictions.
- Local income generated from cash management will be freely transferrable.
- HoldCos may choose their functional currency or currencies, and operate foreign currency accounts and a rand-denominated account for operational expenses.
- Only one wholly owned HoldCo per JSE-listed entity will be allowed. In future, conditions for jointly owned HoldCos, multiple HoldCos and subsidiaries of non-listed entities may be prescribed.
- Appropriate governance and transparency arrangements will be required.

A complementary tax incentive will be considered to allow HoldCos to use foreign functional currency for tax accounting. This would ensure that a HoldCo is not taxable on currency gains and losses arising in the course of foreign functional currency treasury operations. Further details are in Annexure C.

A history of Gateway to Africa reforms

Since 1997, rules governing outward investment by domestic companies have been reformed to give preference to direct investments into Africa.

In 2004, limits on the use of domestic capital in funding offshore investment were removed to provide greater flexibility in financing international expansion. Reforms to facilitate inward listings by foreign companies in local capital markets were also introduced to support international companies investing in Africa.

These reforms have been reinforced by measures to reduce the administrative burden of controls on outward investment, including the removal of the formal Reserve Bank approval process for investments up to R500 million per year.

South African institutional investors (retirement funds, long-term insurance companies, collective investment scheme companies and registered investment managers) are allowed to hold an additional amount of African assets above their current foreign asset allowances, either directly or through the JSE.

South African banks can hold up to 25 per cent of the value of liabilities in foreign assets, which encourages diversification and supports the flow of capital for investment in Africa (see below for additional allowance). Certain private equity funds mandated to invest in Africa have been allowed to invest in the continent without further exchange control restrictions, subject to reporting requirements.

South Africa has eliminated restrictions on investments “passing through” the country to the rest of Africa through specific tax and exchange control rules that apply to qualifying international headquarter companies. This increases South Africa’s attractiveness as a location for regional headquarters.

Government recognises that the new dispensation may also benefit companies with legacy offshore operations. It is open to extending the HoldCo, secondary listing or international headquarter company rules (see below) to these companies, provided the new arrangements have clear benefits to South Africa.

Further refinements to international headquarter company rules

The international headquarter company rules were introduced in 2010 to encourage international companies to invest in Africa using South Africa as a base. International headquarter company status will now be allowed for companies with shares and debt listed on the JSE. The participation threshold will be reduced to 10 per cent.

Increase in macroprudential limit for banks

An additional 5 percentage point allowance for African operations is proposed for the macroprudential limit to facilitate South African banks' further expansion into Africa. A comprehensive review of the limit is being finalised.

Securities lending

Government proposes that authorised dealers be allowed to accept non-rand collateral for securities lending transactions with non-residents as a pilot project.

African listings on the JSE

Debt and equity instruments issued by entities in the Common Monetary Area will be classified as domestic assets, and the listing process will be streamlined.

Listing and trading of foreign referenced assets in foreign currency

The JSE will be allowed to offer African agricultural commodity derivative contracts in foreign currency subject to certain requirements. This will help African farmers hedge risk.

Exchange-traded funds

A limited number of financial institutions have been allowed to operate gold exchange-traded funds. Government proposes to open this product to other qualifying institutions, and to allow commodity exchange-traded funds, including platinum. These funds will be classified as domestic assets for prudential purposes.

Intellectual property

During 2012, intellectual property was deemed capital for Reserve Bank purposes. This was a temporary measure. Following consultation with industry, a joint National Treasury, Reserve Bank and South African Revenue Service will review the change to align it with the tax treatment.

Further details on all the changes outlined above will be made available by the Reserve Bank.