

# Finance



National Treasury is the custodian of the nation's financial resources, accountable to the nation to discharge its responsibilities professionally, with the aim of promoting growth and prosperity for all.

The department strives to raise fiscal resources equitably and efficiently and to manage government's financial assets and liabilities soundly by promoting transparency and effective financial management.

The Ministry of Finance is the political head of specialised public sector organisations in the areas of finance, economics and accounting.

South Africa continues to have the most transparent budget process when measured against 94 countries, including developed economies. Notwithstanding this achievement, National Treasury continues to improve the quality of information presented in the budget. This is meant to help those entities responsible for oversight, to ensure better accountability by those who have been entrusted with the responsibility of managing and spending public funds.

The ministry provides analysis and advice on fiscal policy and public finances, intergovernmental financial relations, and expenditure planning and priorities. It manages the annual budget process and provides public finance management support.

The measurable objective is to promote growth, social development and poverty reduction through sound fiscal and financial policies and the effective, efficient and appropriate allocation of public funds. Specific aims are to:

- prepare a national budget that gives effect to the government's economic, fiscal, social and developmental goals under the umbrella of the outcomes approach
- produce and publish the *National Budget*, the *Budget Review*, the *Estimates of National Expenditure*; the *Medium-Term Budget Policy Statement* (MTBPS); and appropriation legislation containing relevant, accurate and clear financial information and associated indicators of service delivery and performance
- contribute to public policy and programme development through support for planning, policy and programme analysis, budgeting and project management, including support for public finance reform in provinces and municipalities
- promote public and private investment in infrastructure and public services by providing technical support for capital expenditure

In November 2013, the South African Reserve Bank introduced a new security feature in the form of little dots on the front and back of all Mandela banknotes to coincide with the November 2012 anniversary of the banknote series.

planning and project analysis, advice on financing alternatives, support for municipal development and financial assistance for neighbourhood development projects

- monitor and analyse public expenditure and service delivery, and support improved monitoring and analysis of public expenditure and service delivery and the appropriate use of public and private financial resources for social and economic development and infrastructure investment.

## Fiscal policy framework

The Fiscal Policy unit manages and develops the fiscal framework, which is used to advise the Minister of Finance on policy options available in setting the budget framework. In 2012/13, the unit completed the first iteration of the country's long-term fiscal report. A follow-up report focuses on South Africa's long-term public infrastructure requirements.

## Budget framework

The Budget Office provides fiscal advice, oversees expenditure planning and the national budget process, leads the budget reform programme, manages official development assistance and compiles public finance statistics.

## Expenditure planning and statistics

Total spending reached R1,1 trillion in 2013, representing some 32% of gross domestic product (GDP).

The Expenditure Planning unit designs and manages the South African national budget process and plays a central role in preparing and publishing the various budget documents. The budget decision-making process is a matrix that requires coordination across the three spheres of government and involves engagements with various committees, including Cabinet, to ensure that appropriate budgeting choices are made.

Extensive internal and external budget-related engagements by various National Treasury units require planning, coordination and support, by managing different forums and types of data analysis. To assist with budget preparation and the publication of documents, the unit prepares budget process and requirement guidelines, which are issued to all government institutions.

In September 2013, Cabinet approved the South African Mint Company's designs for the 2013 R2 (1/4 oz) commemorative 24-ct gold coin series and the 2013 R1 (1/10 oz) commemorative 24-ct gold coin series.

The design of the 2013 R2 gold coin features the San language and the design of the 2013 R1 gold coin features the third pollinator – the Fruit Bat.

The unit also manages the in-year budget adjustment process in respect of the current financial year, set out in the *Adjusted Estimates of National Expenditure* and the *Adjustments Appropriation Bill*, published in October every year.

The unit represents South Africa internationally regarding budget reform matters, and works collaboratively with other institutions at the centre of government, particularly with the Department of Performance Monitoring and Evaluation.

The Public Finance Statistics unit produces fiscal data and public finance statistics within a consistent accounting framework, which complies with national and international reporting requirements.

These statistics support the budget and its auxiliary processes. The aim is to improve the transparency and accountability of government finance data used for budget publications and for submission to international organisations, such as the International Monetary Fund (IMF).

The unit published a consolidated government account in the 2013 Budget, which provided information on the operating and capital accounts, and a consolidated financing position to ensure closer alignment with the IMF Government Finance Statistics (GFS) presentation format. Coverage and quality of data were further improved through inclusion of all newly listed entities and the extension of the number of inter-entity transactions identified and netted out during production of the account.

To improve budgeting by government function, the function groups were revised and a review of the GFS functional classification of national and provincial departments and public entities was carried out to ensure consistency and compliance with the GFS.

The unit manages the Standard Chart of Accounts (Scoa) committee and, in collaboration with the office of the Accountant-General, published a number of classification circulars on amendments to the Scoa.

Further reforms to the Scoa were made for re-implementation on 1 April 2013. The purpose was to improve the quality of data and reporting capabilities.

Training continued and a tool to identify inconsistencies in classification was implemented.

## Growing the economy

Growing the economy means expanding business activity. Government recognises the key role that private companies play in the economy. During his budget vote, the Minister

of Finance outlined several possible solutions to the investment and development challenges presented by business leaders. This signalled growing confidence in the business outlook, despite difficult conditions. The proposals included:

- construction and refurbishment by a company in the hospitality sector worth R2,5 billion in the next 18 months and expansion of R3 billion in the pipeline
- two telecommunications investments amounting to R14 billion in 2013
- capital expenditure of R3,4 billion over the next three years by a rail and logistics operator
- a R2,5-billion expansion and longer-term plans of R15 billion in mining projects
- investment of R1,4 billion by a leading retailer, and plans to open 100 new stores by another
- an expansion of R2 billion by a food and beverage sector firm
- plans for R28,5 billion in long-term infrastructure investment by a leading industrial company to create 10 000 temporary and 4 000 permanent jobs.

Government encouraged businesses to keep investing in the economy, and seize available opportunities by reinforcing several initiatives that support business development, namely:

- The Manufacturing Competitiveness Enhancement Programme (MCEP), announced in 2012, received 215 applications with requests for grants totalling R2,3 billion, mainly from the chemicals, metals and agro-processing sectors. Applications will increase over the period ahead and funding of R1,5 billion per year was provided in the budget of the Department of Trade and Industry.
- The Special Economic Zone (SEZ) Programme received funding to build world-class industrial parks.
- The Jobs Fund received 3 614 applications and 65 projects were approved. Grant funding of R3,3 billion was approved, matched by a further R3,1 billion in funding raised by the private sector.
- Small, Medium and Micro Enterprises (SMMEs) play a key role in developing the economy and are a significant generator of employment.
- Financing SMMEs was simplified with the creation of the Small Enterprise Finance Agency in 2012.

During his Medium-Term Budget Policy Statement in October 2013, the Minister of Finance announced that he had appointed a Tax Review Committee to look at how the country's tax system might play a role in: promoting development and inclusive economic growth; job creation; and contributing to fiscal sustainability.

## International Development and Cooperation

The International Development Cooperation (IDC) unit is responsible for coordinating, mobilising and managing official development assistance (ODA). The IDC enhanced ODA coordination through continuous engagements with development partners on various platforms, including annual consultations, high-level bilateral meetings and official visits.

Within government departments, the IDC has enhanced coordination by organising national and provincial ODA coordinators' forums, and has facilitated greater accountability and transparency by reporting on ODA programmes to the budget-allocation decision-making process.

Through a series of community practice sessions and manuals, the unit has also developed capacity within line departments to report on and manage ODA programmes.

Within 2012/13, the unit successfully programmed the €100 million Infrastructure Investment Programme for South Africa (IIPSA) between the European Union (EU) and South Africa.

In an unprecedented agreement with the European Commission, the Development Bank of South Africa (DBSA) has been appointed as the implementing agency for this programme.

In the past year, the South African government received R1,9 billion in the form of grants from bilateral international development partners. These grants support development efforts across many sectors of government.

## Overview of the 2013/14 Budget

The 2013/14 national budget was presented in challenging times, but against the background of a new strategic framework for growth and development. Though there was limited room for expansion, there were significant opportunities for change.

South Africa's economy continued to grow, but at a slower rate than projected at the time of the 2012 budget. The 2013 budget took the National Development Plan as its point of departure.

The strategic plans of government and the medium-term expenditure plans were aligned to realise government's objectives.

Government took measures to control growth in spending. Spending plans were reduced by R10,4 billion through reprioritisation, savings and a draw-down on the contingency reserve.

Government remains committed to a large-scale infrastructure investment programme. The path of spending and recovery in revenue will stabilise debt at just higher than 40% of GDP.

The budget deficit will fall from 5,2% of GDP in 2012/13 to 3,1% in 2015/16.

In 2013/14, a review of the tax policy framework and its role in supporting the objectives of inclusive growth, employment, development and fiscal sustainability was initiated.

In the 2013/14 fiscal year, personal income tax relief of R7 billion was granted.

A new local government equitable share formula was proposed, providing a subsidy for free basic services designed to reach 59% of households.

Further education and training continued to be expanded and enhanced.

A revised youth employment incentive was tabled in the House, together with a proposed employment incentive for SEZs.

In the 2013 budget, government continued to invest in education, health, housing, public transport and social development – components of the social wage, which add up to about 60% of public expenditure.

During the October 2013 MTBPS, the Minister of Finance said that South Africa's debt-to-GDP ratio remained sustainable, despite having risen from 23% of GDP in 2007/8 to 39,3% of GDP in 2013/14.

Net debt is expected to reach 43,9% of GDP in 2016/17. The budget deficit came in at 4,2% for 2013/14, declining slightly to 4,1% in 2014/15, before falling to 3% in 2016/17.

While a 4,6% budget deficit was forecast in the 2013 Budget, the 4,2% deficit was based on a new formula for government accounts – which is in line with IMF provisions and includes extraordinary receipts and extraordinary payments in the calculation of the deficit.

The borrowing requirement for the main budget increased from R168,5 billion in 2013/14.

Interest payments are the fastest growing expenditure item over the next three years, growing to R140 billion in 2016/17 – higher than 2013 spending on healthcare.

Compensation of public servants accounted for 39,4% of the budget of non-interest spending, continuing to outpace inflation, but growing at a slower rate than over the past three years. Over the next three years, the government's debt management strategy will focus on minimising refinancing risk to accommodate redemptions.

Government will also continue to build cash reserves and continue to switch from short-term to longer-term debt as market conditions allow. The contingency reserve is projected to grow from R3 billion in 2014/15 to R6 billion in 2015/16, climbing to R18 billion in 2016/17.

The contingency reserve has been reduced from R7,5 billion over the next two years to respond to spending pressures. As part of

measures to restrict spending, state-owned companies (SOCs) are expected to borrow on the strength of their balance sheets, rather than be funded from the fiscus.

If capitalisation of the State's core assets were required, state-owned entities would have to consider upfront disposal of non-core assets, while those SOCs that faced persistent difficulties had to undergo operational restructuring.

### Debt management

Government is committed to remaining within the expenditure ceiling set out in the budget. New policy initiatives over the next three years will be financed from savings, efficiency gains and reprioritisation.

Structural increases in spending require corresponding revenue increases, if they are to be financed sustainably. If government succeeds in driving growth towards 5% a year and government revenue doubles in the next 20 years, major infrastructure projects and new policy initiatives, such as the National Health Insurance (NHI) and expanded vocational education will be affordable with limited adjustments to tax policy. But if growth continues along the present trajectory, substantial spending commitments would require significant adjustments in revenue and reductions in other areas of spending.

Debt-service costs peaked at 2,8% of GDP in 2013/14.

### Financial systems

National Treasury is responsible for the development, maintenance and support of financial management systems (Basic Accounting System or Bas, Persal, Logis and Vulindlela) that support:

- payment of government employees' salaries and service providers
- financial reporting and management for government departments.

The Public Entities Governance unit implements the recommendations of the public entities governance framework review, and rolls out the budgeting framework for all public entities.

The unit helped prepare consolidated financial accounts and maintain budget databases and the administrative records of the general government sector, including public entities.

The unit continued its efforts to enhance the regulatory environment for the governance and management of public entities from a range of perspectives, including the development of applicable remuneration frameworks. The unit provided support to the Presidential Review

Commission on State-owned entities; and consulted with departments on budgets and policy matters related to public entities.

It provides institutional support to these entities, at national and provincial level.

## Legislation and policies

- The Public Finance Management Act, 1999 (Act 1 of 1999) ensures that public funds are managed by a less rigid environment for financial management, with a stronger emphasis on the prudent use of state resources, improved reporting requirements and the use of management information to enhance accountability.
- The Municipal Finance Management Act, 2003 (Act 56 of 2003) applies to all municipalities and municipal entities, and national and provincial organs of state, to the extent of their financial dealings with municipalities.
- The Co-Operative Banks Act, 2007 (Act 40 of 2007) provides for the establishment of the Co-Operative Banks Development Agency as a public entity under the executive authority of the Minister of Finance.
- Division of Revenue Act, 2012 (Act 5 of 2012)
- Appropriation Act, 2012 (Act 7 of 2012)
- Rates and Monetary Amounts and Amendment of Revenue Laws Act, 2012 (Act 13 of 2012)
- Adjustments Appropriation Act, 2012 (Act 17 of 2012)
- Division of Revenue Amendment Act, 2012 (Act 18 of 2012)
- Financial Markets Act, 2012 (Act 19 of 2012)
- Tax Administration Laws Amendment Act, 2012 (Act 21 of 2012)
- Taxation Laws Amendment Act, 2012 (Act 22 of 2012)
- Credit Rating Services Act, 2012 (Act 24 of 2012).

## Financial institutions Financial Intelligence Centre (FIC)

The FIC is South Africa's national agency tasked with developing and providing financial intelligence for law enforcement authorities, the intelligence services and the South African Revenue Service (Sars). The FIC was established by the FIC Act, 2001 (Act 38 of 2001), and reports to the Minister of Finance and to Parliament.

The FIC's mandate is to:

- monitor the compliance of designated businesses (accountable institutions) and supervisory bodies regarding their anti-money laundering and anti-terror financing obligations
- receive and analyse transactional data to identify the proceeds of crime and money laundering and the financing of terrorism

- provide financial intelligence reports to law enforcement authorities, intelligence agencies and Sars
  - formulate and lead the implementation of policy regarding money laundering and the financing of terrorism
  - provide policy advice to the Minister of Finance
  - uphold the international obligations and commitments required by the country, in respect of anti-money laundering and combating financing of terrorism (AML/CFT).
- The FIC Act of 2001 introduces a regulatory framework of measures which requires certain categories of business to take steps regarding client identification, record-keeping, reporting of information and internal compliance structures.

All businesses have to report various suspicious transactions to the FIC. The FIC also receives additional financial data from accountable and reporting institutions.

South Africa is a member of the Financial Action Task Force, a body which sets international standards and policy on AML/CFT. It is also a member of the Eastern and Southern Africa Anti-Money Laundering Group, which supports countries to implement the global AML/ CFT standards.

The FIC is a member of the Egmont Group, comprising the financial intelligence units of 139 countries, which facilitates cooperation and shares financial intelligence among its members.

## Financial and Fiscal Commission (FFC)

The FFC is an independent, objective, impartial and unbiased constitutional advisory institution. It is a permanent expert commission with a constitutionally defined structure, a set of generic responsibilities and institutional processes.

The FFC submits recommendations and advice to all spheres of government, based on research and consultations on a range of intergovernmental fiscal issues.

The research includes:

- developing principles for intergovernmental fiscal relations, based on analysis of international best practice
- analysing local, provincial and national government budgets to understand revenue and expenditure trends
- identifying and measuring factors influencing provincial and local revenues and expenditures
- assessing fiscal policy instruments, such as conditional grants, equitable share transfers and taxes.

Government is required by the Constitution and other legislation to consult with the FFC on issues such as provincial and local government

revenue sources, and provincial and municipal loans.

Consultation about the fiscal implications of assigning functions from one sphere of government to another is also required.

### Public Investment Corporation (PIC)

The PIC's clients are public-sector entities, most of which are pension, provident, social security, development and guardian funds.

The PIC's role is to invest funds on behalf of these clients, based on investment mandates set by each client and approved by the Financial Services Board (FSB), with which it is registered as a financial services provider (FSP).

The PIC is wholly owned by the South African Government, with the Minister of Finance as the shareholder representative.

The PIC was established as a corporation on in accordance with the PIC Act, 2004 (Act 23 of 2004).

Corporatisation has enabled the PIC to structure its investment activities and operations in a manner comparable to that of private-sector investment managers.

Apart from pursuing FSB-compliant mandates, the PIC benchmarks its investment performance against market-driven indices, enabling clients and the shareholder to compare PIC's returns with those achieved in the marketplace.

### South African Revenue Service

In July 2013, the Minister of Finance appointed a tax review committee. Central to the review of the country's tax regime would be to ensure that the system was able to boost revenue collection to help government fund its key policy objectives.

These would include funding government's priority programmes such as NHI and the government's infrastructure development plan aimed at creating jobs.

The terms of reference according to which the committee operates included evaluating the current tax system against internationally accepted standards, principles and practices improving tax compliance and doing away with base erosion.

The G20 meeting of finance ministers in Moscow in Russia, in July 2013, also discussed ways of ensuring coordination between member countries, so that a regulatory framework was in place to stop companies from evading paying tax by shifting investments to offshore accounts.

In accordance with the Sars Act, 1997 (Act 34 of 1997), Sars is an organ of State outside the Public Service.

It aims to provide a world-class, transparent and taxpayer-centred service, ensuring optimum

and equitable revenue collection. Its main functions are:

- collecting and administering all national taxes, duties and levies imposed under national legislation
- collecting revenue that may be imposed under any other legislation, as agreed upon between Sars and an organ of state or institution entitled to the revenue
- advising the Minister of Finance on revenue
- facilitating trade
- providing protection against the illegal import and export of goods
- advising the Minister of Trade and Industry on matters concerning control over the import, export, manufacture, movement, storage or use of certain goods.

### Tax administration

National Treasury is responsible for advising the Minister of Finance on tax policy issues that arise in local, provincial and national government. As part of this role, National Treasury must design tax instruments that can optimally fulfil their revenue-raising function. These tax instruments must be aligned to the goals of government's economic and social policy.

Sars has an electronic platform to help taxpayers, traders and employers engage with the organisation quickly and efficiently. The eFiling service allows Sars clients to request information, submit returns, make declarations and pay taxes and duties electronically. It supports major tax products, such as Company Income Tax (CIT), Personal Income Tax (PIT), pay-as-you-earn (PAYE) and Value-added Tax (VAT) as well as several customs and excise products. Sars clients can access the eFiling service via the internet or by visiting a Sars branch office. A mobile facility, which enables clients to access the eFiling service from a mobile device, was introduced in 2013.

The electronic platform enabled Sars to improve processing efficiency and productivity while serving an increasing number of taxpayers and traders.

In 2012/13, 99,86% of tax returns were submitted electronically. In 2012/13, 93% of all returns submitted were assessed within three seconds. Average turnaround times for PIT and CIT returns were 0,26 and 0,87 days. Sars paid 94,5% of all refunds within 72 hours.

The modernisation programme has also enabled Sars to use advanced technology to improve compliance, manage risk and combat fraud and corruption. Sars is deploying an increasing proportion of its personnel in service and compliance activities. Greater access to third-party data has helped Sars

tailor its electronic platform to better suit client requirements as well as improve the verification of information submitted by taxpayers and traders.

A single, modern framework for the common administrative provisions of the various tax Acts administered by Sars was established through the promulgation of the Tax Administration Act, 2011 (Act 28 of 2011) in July 2012, which commenced on 1 October 2012. The Act simplifies and provides greater coherence in South African tax administration law. It eliminates duplication, removes redundant requirements, and aligns disparate requirements that previously existed in the different Tax Acts administered by Sars.

The Act provides for common procedures across the tax products, and strives for an appropriate balance between the rights and obligations of Sars and the rights and obligations of taxpayers in a transparent relationship.

### **Tax Ombud**

In terms of the Tax Administration Act of 2011, the Minister of Finance appointed South Africa's first Tax Ombud on 1 October 2013. The office of the Tax Ombud is intended to provide taxpayers with a low-cost mechanism to address administrative difficulties that cannot be resolved by Sars.

### **South African tax system**

South Africa has a residence-based tax system. Residents are, subject to certain exclusions, taxed on their worldwide income, irrespective of where their income was earned. Non-residents are taxed on their income from a South African source. The liability of taxpayers is determined subject to the provisions of International Agreements for the Avoidance of Double Tax.

Tax is levied on taxable income, which is calculated as gross income excluding certain income of a capital nature, less exemptions and permissible deductions.

The main tax products are CIT, VAT, PIT and customs and excise duties.

### **Company income tax**

Companies are subject to a flat tax rate, which is 28% of taxable income. An exception to the rule is the reduced tax rates that apply to small and micro-businesses.

### **Value-added tax**

VAT is levied at 14% on the supply of all goods and services by VAT vendors (certain supplies are zero-rated) and contributes about 26% of total tax revenue.

The quoted or displayed price of goods and services must be VAT-inclusive. A person who supplies goods or services is liable to register for VAT, if the income earned is more than R1 million in a 12-month period, or when there is a reasonable expectation that the income will exceed this amount.

A person can also register voluntarily for VAT, if the income earned from supplying goods or services for 12 months exceeded R50 000.

### **Personal income tax**

PIT mainly focuses on the taxation of non-corporate income. The main contributor to PIT is employment income from salary earners, and income generated from sole-proprietor activities. The tax rate applicable to PIT-related taxable income is progressive, ranging from marginal rates of 18% to 40%.

PAYE is withheld by employers from salary and wage income on a monthly basis, and reconciled biannually.

### **Other tax products administered by Sars** **Excise duty**

Excise duty is levied on certain locally manufactured goods and their imported equivalents, such as tobacco and liquor products, and as an ad valorem duty on cosmetics, audio-visual equipment and motor cars.

Relief from excise duty is available where excisable products are exported, for example, specific farming and forestry equipment, and certain manufacturing activities.

### **Transfer duty**

Transfer duty is payable on the acquisition of property. With effect from 23 February 2011, property costing less than R600 000 attracts no duty. A 3% rate applies to properties costing between R600 000 and R1 million.

In respect of property with a value between R1 million and R1,5 million, the duty is R12 000 plus 5% of the value above R1 million.

In respect of property above R1,5 million, the duty is R37 000 plus a rate of 8% of the value exceeding R1,5 million.

### **Estate duty**

Estate duty is levied at a flat rate of 20% on residents' property and non-residents' South African property.

A basic deduction of R3,5 million is allowed in the determination of an estate's liability for estate duty, as well as deductions for liabilities, bequests to public benefit organisations and property accruing to a surviving spouse.

### Dividend-withholding tax

With effect from 1 April 2012, a dividend-withholding tax is levied on shareholders on payment of a dividend at 15%.

The tax is withheld by either the institution paying the dividend or by a regulated intermediary distributing the dividend. The dividend-withholding tax replaces the secondary tax on companies.

### Securities transfer tax

Securities transfer tax is levied at a rate of 0,25% on the transfer of listed or unlisted securities. Securities consist of shares in companies or members' interests in close corporations.

### Skills-development levy

The Skills Development Fund is intended to be used for employee training and skills development.

The levy, which is an amount paid by all employers to Sars, goes into a government body responsible for organising education and training programmes within a specific sector. Each sector has its own Sector Education and Training Authority. The rate is 1% for employers with an annual payroll in excess of R500 000.

### Unemployment Insurance Fund (UIF)

The UIF insures employees against the loss of earnings, due to termination of employment, illness or maternity leave. The contribution to the UIF is shared equally by employers and employees at a rate of 1% of remuneration each. The employee share of 1% is withheld by the employer and paid to Sars, together with the employer share of 1%, monthly.

### Tax on international travel

This tax is levied as follows: R190 per passenger departing on an international flight, excluding flights to Botswana, Lesotho, Namibia and Swaziland, in which case the tax is R100.

### Rates on property

Property-related taxes include municipal rates and charges for refuse and sewerage.

### Customs duty

The policy on tariffs applicable to the importation of goods into South Africa is set by the International Trade Administration Commission under the authority of the Department of Trade and Industry.

The duties levied on imported goods can be separated mainly into customs duties, which include customs duties (ad valorem) on certain luxury or non-essential items, and anti-dumping

and countervailing measures. In addition, VAT is also collected on goods imported and cleared for home consumption and certain other levies are imposed on specific products.

### Southern African Customs Union (Sacu)

Botswana, Lesotho, Namibia, South Africa, and Swaziland are signatories to the Sacu agreement. They apply similar customs and excise legislation and the same rates of customs and excise duties on imported and locally manufactured goods. Applying uniform tariffs and harmonising procedures simplifies trade within the Sacu area by enabling the free movement of goods for customs purposes. However, all other national restrictive measures such as import and export control, sanitary and phytosanitary requirements and domestic taxes apply to goods moved between member states.

The 2002 Sacu Agreement is in force and provides a new dispensation for calculating and effecting transfers based on customs, excise and a development component of the Revenue -Sharing Formula.

The Sacu heads of state and government endorsed an ambitious Sacu regional trade facilitation programme that is focused on creating common information technology platforms to allow:

- interconnectivity
- enforcement strategies to be harmonised to curb illicit trade
- improved border efficiencies to facilitate seamless trade
- the development of partnerships with traders through the establishment of a formalised Customs-Trader Forum
- the development of similar customs legislation
- one-stop border posts to be established.

South Africa and all Sacu countries are working towards implementing the programme.

### Border posts

South Africa is automating most of its border processes to bring the country in line with the international standards of the World Customs Organisation and world-class immigration processes.

The latest technology is now being used to clear cargo electronically, while allowing customs and immigration officials to scan passports and release notifications at ports of entry. The intention is to have a seamless process for

In July 2013, the Minister of Finance appointed Judge Dennis Davis to chair an eight-member tax review committee to investigate how revenue generated by the South African Revenue Service might be used to improve the economy.

compliant travellers and traders while, making it difficult for illegitimate travellers and traders.

Visitors to South Africa need to ensure that they are familiar with the list of goods (and quantities) that may be imported without payment of customs duty and VAT as well as those for which customs duty and VAT are payable. This information is available on the Sars website.

### **International tax agreements for the avoidance of double taxation**

International tax agreements are important for encouraging investment and trade flows between nations, as they provide certainty about the tax framework.

By reaching agreement on the allocation of taxing rights between international investors' residence and source countries, double-taxation agreements provide a solid platform for growth in international trade and investment. South Africa has tax agreements with over 70 countries.

### **African Tax Administration Forum (ATAF)**

Formed in Uganda in November 2009, ATAF is a platform for African revenue authorities to articulate African tax priorities, develop and share best practices, and build capacity in African tax policy and administration.

ATAF has 36 African tax administrations as members and a governing council comprising 10 member countries from the five regions of Africa. Sars currently chairs the ATAF Council.

The organisation offers technical training events on tax and also has working groups on: Exchange of Information; Indirect Taxes; and Transfer Pricing. ATAF has delivered various tax reform publications, as well as conducting research into these and other tax matters.

Members of ATAF at the most senior level gather biannually for a General Assembly and every year in between a General Assembly, they meet for the ATAF International Conference on Tax in Africa.

### **Sars performance**

For the financial year ending on 31 March 2013, Sars collected R813,8 billion in revenue, which is 9,6% more than in 2012.

### **eFiling**

Sars introduced its internet service, eFiling ([www.sarsefiling.co.za](http://www.sarsefiling.co.za)), as an electronic gateway for taxpayers to interact electronically with Sars.

The eFiling gateway is a secure and free service, enabling taxpayers to submit their tax

returns online at any time. It removes the risks and inconvenience of submitting paper tax returns. Not only can returns be submitted via the internet, but users can also make secure tax payments online. There is also a facility to apply for tax directives, which can be obtained within 24 hours.

The eFiling service is equal to international standards, and comparable with services offered in the United States of America, Australia, Singapore, Ireland, Chile and France.

### **Tax calendar**

Sars has instituted three filing seasons in the tax year that runs from March to February. The first one is Tax Season for Employers, when employers file their annual PAYE reconciliations. This runs from April to May.

This is followed by Tax Season for Individuals, when individual taxpayers file their income tax returns. This runs from July to the end of November for non-provisional taxpayers who submit via eFiling.

Provisional taxpayers who submit via eFiling have until 31 January the following year to submit their returns. Provisional tax is a system that allows qualifying taxpayers to pay at least two amounts in the course of the year of assessment.

Employers have an interim filing season when they file reconciliations for the first six months of the tax year, during September and October.

All three filing seasons are accompanied by innovative communication and marketing campaigns.

There has been a steady increase in taxpayer compliance, due to the predictable filing seasons, combined with Sars' improved service offering and taxpayer education.

The Taxpayer Education Campaign focuses on helping all eligible taxpayers complete their tax returns correctly, honestly and on time.

### **National Gambling Board (NGB)**

The NGB was established in terms of the National Gambling Act (NGA), 1996 (Act 33 of 1996), which was repealed on 1 November 2004 by the NGA, 2004 (Act 7 of 2004).

The vision of the board is to position South Africa as the pre-eminent jurisdiction with an effectively regulated industry. The NGB is committed to effective regulation and supervision of the South African gambling industry,

The Employment Tax Incentive Act, 2013 (Act 26 of 2013) provides for the granting of a rebate for employing young people between the ages of 18 and 29. The Act is expected to support about 200 000 jobs over the next three years.

which is a significant economic sector, by upholding internationally recognised standards of compliance.

The emergence of illegal internet gambling raises challenges to the regulatory regime concerning when, how and what the framework of interactive gambling will be, and what the challenges are.

### Statistics

The NGB maintains a national gambling database that contains information on national gambling statistics such as turnover, gross gambling revenue (GGR), gambling taxes and levies, as well as returns to players and punters.

Provincial licensing authorities are required to submit statistics to the NGB quarterly for consolidation and reporting on the national status.

### Responsible gambling

The NGB has a legislated responsibility to educate the public about gambling and the negative socio-economic impact of the gambling industry on society.

The National Responsible Gambling Programme (NRGP) is a resource that integrates research and monitoring, public education and awareness, training, treatment and counselling.

The NRGP is managed by the South African Responsible Gambling Foundation. The main thrust of the NRGP's prevention programme is to educate gamblers, potential gamblers and society as a whole about responsible gambling.

The NRGP has various operational components, such as public awareness and prevention, the toll-free counselling line, a countrywide treatment network for outpatient counselling and therapy, research and monitoring initiatives, training for regulators and industry employees, a crisis line service available to gambling industry employees and management, as well as the Taking Risks Wisely life-skills programme – a teaching resource for grades 7 to 12.

### National Lotteries Board (NLB)

The NLB was established in October 1998, in terms of the Lotteries Act, 1997 (Act 57 of 1997). The board's main activities include:

- advising the Minister of Trade and Industry on the issuing of the licence to conduct the National Lottery
- ensuring that the National Lottery and sports pools are conducted with all due propriety
- ensuring that the interests of every participant in the National Lottery are adequately protected
- ensuring that the nett proceeds of the National Lottery are as high as possible

- administering the National Lottery Distribution Trust Fund and holding it in trust
- advising the Minister on percentages of money to be allocated, in terms of the Lotteries Act of 1997
- advising the Minister on establishing and implementing a social-responsibility programme in respect of lotteries
- administering and investing the money paid to the board in, accordance with the Lotteries Act, 1997.

The National Lottery operator is Gidani, an 89,2% black-majority-owned private company.

### Auditor-General of South Africa (AGSA)

The AGSA strengthens South Africa's democracy by enabling oversight, accountability and governance in the public sector through auditing, thereby building public confidence.

The AGSA is one of the Chapter-9 institutions mandated by the Constitution to fulfil certain functions. These institutions are not part of government and do not have a duty to be part of the mechanisms of cooperative government. The independence of the AGSA is, therefore, respected and strengthened.

As mandated by the Constitution and the Public Audit Act, 2004 (Act 25 of 2004), the AGSA is responsible for auditing national and provincial state departments and administrations, all municipalities and any other institution or accounting entity required by national and provincial legislation to be audited by the AGSA.

Various business units provide auditing services, corporate services and specialised audit work, such as performance audits, information system audits and audit research and development. The AGSA also has an international auditing complement.

The 21st International Congress of Supreme Audit Institutions took place in Beijing, China, in October 2013.

### Financial sector

#### South African Reserve Bank (SARB)

The SARB is the central bank of South Africa. It was established in 1921, in terms of a special Act of Parliament and the Currency and Banking Act, 1920 (Act 10 of 1920), which was the direct result of abnormal monetary and financial conditions that had arisen during and immediately after World War I.

The SARB is governed by the SARB Act, 1989 (Act 90 of 1989). In terms of the Constitution, it has been given an important degree of autonomy in the execution of its duties.

Since its establishment, the SARB has always had private shareholders who have limited rights.

It has more than 600 shareholders. Its shares are traded on the over-the-counter share-trading facility managed by the SARB. Its operations are not motivated by a drive to return profits, but to serve the best interests of all South Africans.

The SARB has branch offices in Johannesburg, Bloemfontein, Cape Town, Durban, East London, Port Elizabeth and Pretoria North. The bank must submit a monthly statement of its assets and liabilities to National Treasury and an annual report to Parliament. The Governor of the SARB holds regular discussions with the Minister of Finance and appears before the Parliamentary Portfolio and other select committees on finance, from time to time.

The SARB has a unique position in the economy, as it performs various functions and duties not normally carried out by commercial banks. Although the functions of the SARB have changed and expanded over time, the formulation and implementation of monetary policy has remained one of the cornerstones of its activities.

The SARB publishes monetary-policy reviews, and regular regional monetary-policy forums are held to provide a platform for discussions on monetary policy with broader stakeholders from the community.

### System of accommodation

The SARB's refinancing system is the main mechanism used to implement its monetary policy. Through its refinancing system, the SARB provides liquidity to banks, enabling them to meet their daily liquidity requirements. "Liquidity" refers to the banks' balances at the central bank, which are available to settle their transactions with one another, over and above the minimum statutory level of reserves that they have to hold.

The main instrument for managing liquidity in the money market is repo transactions. The repo rate is the price at which the SARB lends cash to the banking system and is the key operational variable in the monetary-policy implementation process. It represents the most important indicator for short-term interest rates.

The refinancing system also provides for supplementary and standing facilities to bridge the banking sector's overnight liquidity needs, as well as a concession to banks to use their cash-reserve balances with the SARB to square off their daily positions.

### Creating a liquidity requirement

In terms of its monetary-policy implementation framework, the SARB has to compel banks to borrow a substantial amount (the liquidity

requirement or the money-market shortage) from the SARB.

The SARB, therefore, creates a liquidity requirement (or shortage) in the money market, which it then refinances at the repo rate – a fixed interest rate determined by the Monetary Policy Committee (MPC), comprising the bank's governors and other senior officials. After each meeting, the MPC issues a statement indicating its assessment of the economy and announces policy changes, if necessary.

The SARB's repo rate influences the interest rates charged by banks, the general level of interest rates in the economy and, therefore, other economic aggregates such as money supply, bank-credit extension and, ultimately, the rate of inflation. The repo rate influences market rates in two ways: it directly influences the bank's marginal cost of funding and it reflects the bank's stance on monetary policy.

The SARB has to intervene regularly in the money market to create a shortage that would drain excess liquidity. In addition to the liquidity-management operations, the SARB uses other open-market operations to achieve its monetary-policy objectives. The open-market operations refer to the selling of SARB debentures, longer-term reverse repos, money-market swaps in foreign exchange and the movement of public-sector funds, for example, the Corporation for Public Deposits and central government funds, as well as changes in the cash-reserve requirements for banks.

### Functions

The essence of the bank's monetary-policy implementation framework and the transmission of monetary policy is its influence on the level of interest rates through its refinancing system.

**Open-market operations:** Through this mechanism, the bank can exert influence over interest rates in the market. These operations are conducted to:

- neutralise or smooth the influence of exogenous factors on the liquidity position in the money market
- maintain an adequate liquidity requirement in the market, which has to be refinanced from the bank.

**Service to government:**

• **Gold and foreign-exchange reserves:**

The bank is the custodian of the country's official gold and foreign-exchange reserves. Subsequent to the conversion of the negative net open foreign currency position in May 2003 into a positive position, foreign reserves have been growing.

• **Banker and adviser to government:**

The main services provided are administering

the auctions of government bonds and National Treasury bills, participating in the joint standing committees between the bank and National Treasury, and managing the flow of funds between the exchequer account and tax and loan accounts.

• **Administration of exchange control:**

The bank is responsible, on behalf of the Minister of Finance, for the day-to-day administration of exchange controls in South Africa.

• **Provision of economic and statistical services:**

The bank collects, processes, interprets and publishes public information, economic statistics and other information, and uses this information in policy formulation.

• **Bank supervision:**

The mission of the department is to promote the soundness of the banking system and contribute to financial stability.

• **The national payment system:**

The bank is responsible for overseeing the safety and soundness of the national payment system. The main aim is to reduce interbank settlement risk, with the objective of reducing the potential of a systemic risk crisis emanating from settlement default by one or more of the settlement banks.

• **Banker to other banks:**

The bank acts as the custodian of the cash reserves that banks are legally required to hold or prefer to hold voluntarily, with the bank.

• **Banknotes and coins:**

The South African Mint Company, a subsidiary of the bank, mints all coins on behalf of the bank. The South African Bank Note Company, another subsidiary of the bank, prints all banknotes on behalf of the SARB. Currency is distributed to commercial banks through the bank's seven branches. It is the responsibility of the branches to ensure that there is an adequate supply of new notes available to meet demand, and to replace unfit notes. The branches are responsible for the quality of banknotes in circulation in their respective regions.

• **Lender of last resort:**

In terms of its "lender-of-last-resort" activities, the bank may, in certain circumstances, provide liquidity assistance to banks experiencing liquidity problems.

• **Monitoring financial stability:** In view of the interrelationship between price and financial system stability, the bank monitors the macro-prudential aspects of the domestic financial system. The objective of financial stability is to prevent costly disruptions in the country's financial system.

• **Provision of internal corporate support services and systems:** To ensure smooth operations and administration, the bank provides its own internal services, supported by information, communication and technology, and human resources.

Tax revenue performance by tax type for 2012/13 vs. 2011/12, R million

Tax type	2012/13 collections	2011/12 collections	Variance	Variance
	R million	R million	R million	%
Personal income tax	267 679	251 339	25 339	10,1%
Company income tax	160 896	153 272	7 624	5%
Secondary tax on companies/Dividends tax	19 739	21 965	-2 227	-10,1%
Value-added tax (VAT)	215 023	191 020	24 003	12,6%
Domestic VAT	242 416	220 215	22 201	10,1%
Import VAT	111 427	101 813	9 614	9,4%
VAT refunds	-138 820	-131 008	-7 813	6%
Fuel levy	40 410	36 602	3 808	10,4%
Customs duties	38 998	34 198	4 800	14%
Specific excise duties	28 378	25 411	2 967	11,7%
Taxes on property	8 645	7 817	828	10,6%
Skills development levy	11 378	10 173	1 205	11,8%
Other taxes and duties	13 680	10 851	2 829	26,1%
<b>Total tax revenue</b>	<b>813 826</b>	<b>742 650</b>	<b>71 176</b>	<b>9,6%</b>

Source: South African Revenue Service, 2013.

## Monetary policy

Monetary policy in South Africa was significantly influenced by global developments as they shaped domestic growth and inflation outcomes alongside a range of domestic factors.

The domestic monetary policy stance remained accommodative throughout this period, with the real policy rate slightly negative, notwithstanding an expected temporary breach of the inflation target. This stance was consistent with keeping inflation under control and inflation expectations well anchored within a flexible inflation-targeting framework.

The MPC sought to provide stability through a period of extraordinary uncertainty, varying inflationary pressures and a hesitant global recovery.

## The banking industry

As at the end of December 2012, 34 banking institutions – 10 locally controlled, six foreign-controlled, 14 registered branches, three mutual banks and one cooperative bank were reporting data to the Bank Supervision Department of the SARB.

There were also 41 authorised representative offices of international banks in South Africa. The banking industry is characterised by a high degree of concentration, with five banks, namely Capitec, Absa Bank Ltd, Standard Bank of South Africa Ltd, FirstRand Bank Ltd and Nedbank Ltd, dominating the sector.

Total banking-sector assets amounted to R3 652 billion at the end of December 2012.

The total assets of the four largest banks accounted for 83,8% of total banking-sector assets as at December 2012 (December 2011: 84%). Gross loans and advances had increased to R2 753 billion by the end of December 2012. Home loans remained the largest component of gross loans and advances, representing 30,3%, followed by term loans at 20,1%, and other loans and advances at 11,0%.

Total liabilities grew by 6,3%. Funding from depositors remained the largest components of banking sector liabilities in 2012, accounting for 85,7% of total deposits at the end of December 2012. Deposits from corporate customers (including financial institutions) constituted the largest portion of total banking-sector deposits at 45,9% in December 2012.

The banking sector operating profit increased by 73% to R9,2 billion in December 2012. The return on equity and return-on-assets ratios had improved to 17,7% and 1,3%, respectively, by the end of December 2012. The cost-to-income ratio (also known as the “efficiency” ratio) improved during 2012 and amounted to 52,9% in December 2012.

The banking sector remained adequately capitalised throughout 2012. The total capital-adequacy ratios (CAR) and Tier 1 CAR of the banking sector increased marginally from 15,1% and 12,2%, respectively, at the end of December 2011 to 15,9% and 12,6%, respectively, at the end of December 2012.

Impaired advances decreased to R112,1 billion in December 2012. The ratio of impaired advances to gross loans and advances improved during 2012 and amounted to 4,1% at the end of December 2012. The ratio of specific credit impairments as a percentage of gross loans and advances increased to 40% in December 2012.

## The microlending industry

The Department of Trade and Industry introduced the National Credit Act (NCA), 2005 (Act 34 of 2005), to allow the credit market to function in a robust and effective manner.

The NCA of 2005 replaced the Usury Act, 1968 (Act 73 of 1968), and the Credit Agreements Act, 1980 (Act 75 of 1980). The NCA of 2005, which became effective on 1 June 2007, regulates the granting of consumer credit by all credit providers, including micro-lenders, banks and retailers.

The National Credit Regulator (NCR) and the National Consumer Tribunal play a vital role in ensuring enforcement, promoting access to redress and adjudicating contraventions of the Act. Out of a population of close to 50 million,

Tax revenue performance by tax type for 2012/13 vs 2011/12, contribution

Tax type	2012/13 collections	2011/12 collections
Personal income tax	34%	33,8%
Company income tax	19,8%	20,6%
Secondary tax on companies / Dividends tax	2,4%	3%
Value-added tax (VAT)	26,4%	25,7%
Domestic VAT	29,8%	29,7%
Import VAT	13,7%	13,7%
VAT refunds	-17,1%	-17,6%
Fuel levy	5%	4,9%
Customs duties	4,8%	4,6%
Specific excise duties	3,5%	3,4%
Taxes on property	1,1%	1,1%
Skills development levy	1,4%	1,4%
Other taxes and duties	1,7%	1,5%
<b>Total tax revenue</b>	<b>100%</b>	<b>100%</b>

Source: South African Revenue Service, 2013.

South Africa has just over 18 million credit-active consumers.

The NCR is responsible for regulating the South African credit industry. It carries out education, research and policy development; registers industry participants; investigates complaints; and ensures that the Act is enforced.

In terms of the Act, the NCR has to promote the development of an accessible credit market to meet the needs of people who were previously disadvantaged, earn a low income or live in remote, isolated or low-density communities.

The National Consumer Tribunal adjudicates various applications and hears cases against those who contravene the Act. The Act provides for the registration of debt counsellors to assist over-indebted consumers. Debt counsellors are required to undergo training approved by the NCR through approved training service providers appointed by the regulator.

### **Other financial institutions Cooperative Banks Development Agency**

The Cooperative Banks Development Agency was established in 2009, in terms of the Cooperative Banks Act, 2007. Its objectives are to provide for the registration of deposit-taking financial service cooperatives, savings and credit cooperatives, community banks and village banks, and their regulation and supervision. The agency also facilitates, promotes and funds the education and training of cooperative bank personnel. Access to financial services is a precondition for economic development. As 37% of South Africans have no access to regulated financial services, National Treasury is committed to a range of initiatives to increase access.

Financial cooperatives are owned and controlled by members. The agency provides training and support to ensure that the members' savings and assets are properly managed, and not exposed to undue risk. In line with government's responsibility for regulating banking and developments in the cooperative banking sector, the department has developed appropriate legislation to supervise and support the sector.

### **Development Bank of Southern Africa (DBSA)**

The DBSA Act, 1997 (Act 13 of 1997) stipulates that the DBSA's main role is to promote economic development and growth, human-resource development and institutional capacity-building. The bank achieves this by mobilising financial and other resources from the private and public sectors, both nationally

and internationally, for sustainable development projects and programmes.

### **Land and Agricultural Development Bank (Land Bank)**

The Land Bank operates as a development finance institution within the agricultural and agribusiness sectors, and is regulated by the Land and Agricultural Development Bank Act, 2002 (Act 15 of 2002).

The Land Bank provides a range of financing products to a broad spectrum of clients within the agricultural industry. Financing products include wholesale and retail financing to commercial and developing farmers, cooperatives and other agriculture-related businesses.

The Land Bank's objectives are defined within its mandate, which requires that it should achieve:

- growth in the commercial market
- growth in the development market
- business efficiency
  - service delivery
  - resource management
- sustainability.

The Land Bank is the sole shareholder in the Suid-Afrikaanse Verbandversekeringsmaatskappy Beperk, which provides insurance to people indebted to the bank through mortgage loans.

### **Financial Services Board**

The FSB is a regulatory institution, established in terms of the FSB Act, 1990 (Act 97 of 1990).

The functions of the board include:

- supervising compliance with laws regulating financial institutions and the provision of financial services
- advising the Minister on matters concerning financial institutions and financial services
- promoting programmes and initiatives by financial institutions and bodies representing the financial services industry to inform and educate users and potential users of financial products and services.

In June 2013, President Zuma promulgated the Financial Markets Act, 2012 (Act 19 of 2012), which will regulate financial markets and over-the-counter (OTC) derivatives. The introduction of the new law is meant to bring South Africa in line with international norms and standards.

The Act ensures that financial markets in South Africa operate fairly, efficiently and transparently to promote investor confidence. It also ensures that the legislative and regulatory framework is brought in line with the recommendations of international standard-setting bodies such as the

G20, Financial Stability Board, Basel Committee on Banking Supervision and the International Organisation of Securities Commissions.

The Act primarily focuses on the licensing and regulation of exchanges, central securities depositories, clearing houses, trade repositories and market infrastructure, as well as the prohibition of insider trading and other market abuses.

The Act also improves OTC trading in derivatives and does away with misleading and conflict-of-interest trading. This is one of several commitments made by the G20 countries.

To ensure that the market has adequate time to adapt to and comply with the new requirements, the regulations and rules that will give substance to the Financial Markets Act of 2012, will become fully operational following a transitional period.

### Collective investment schemes (CIS)

CISes are investment structures where individual investor funds are pooled with those of other investors. Qualified asset managers regulated by the Financial Advisory and Intermediaries (FAIS) Act, 2002 (Act 37 of 2002), invest these funds on behalf of the investor. Each investor owns units (participatory interest) in the total fund.

The South African CIS industry has recovered well after the financial crisis. The industry continued to benefit from strong investor confidence in the first quarter of 2013, attracting nett inflows of R47 billion.

The three consecutive quarters of record-breaking nett inflows for unit trusts and other local CISes resulted in the highest ever nett inflows for any rolling 12-month period when R166 billion in nett inflows was recorded for the year ended March 2013.

At the end of the first quarter of 2013, the local CIS industry managed assets of R1,28 trillion and offered investors 988 funds.

### Financial advisers and intermediaries

The purpose of the FAIS Act of 2002, is to regulate, in pursuance of consumer protection, the provision of advice and intermediary services to certain clients, in respect of a range of financial products and services.

The FSB, through the FAIS Division, is responsible for regulating the rendering of financial advisory and intermediary services to clients by FSPs, in respect of a wide range of financial products.

In terms of the provisions of the FAIS Act of 2002, before conducting any transaction, consumers should ensure that the FSP they are dealing with has obtained a licence from the FSB. Information on authorised FSPs may be obtained from the FSB website.

### Recognised representative bodies

Section 6(3)(iii) of the FAIS Act of 2002 provides for the Registrar of FSPs to delegate any of its powers, in terms of the Act, to anybody recognised by the Act. Two such functions, the consideration of applications for licences under Section 8 and the consideration of applications for approval of compliance officers under Section 17(2) of the Act, were delegated to two recognised representative bodies. As recognised examination bodies, another four bodies are responsible for developing and delivering the regulatory examination.

### Advisory Committee on Financial Service Providers

The Minister of Finance appointed the Advisory Committee on FSPs, whose function, is to investigate and report, or advise on any matter covered by the FAIS Act, 2002.

The advisory committee comprises a chairperson, a representative of the Council for Medical Schemes, established by Section Three of the Medical Schemes Act, 1998 (Act 131 of 1998), persons representative of product suppliers, FSPs and clients involved in the application of this Act. They are appointed by the Minister after consultation with the board.

The members of the advisory committee, except for the Registrar and Deputy Registrar, who are ex officio members, hold office for a period determined by the Minister.

### Licensing of financial service providers

The Registrar of FSPs authorises and renders ongoing supervision of the following FSPs:

- financial advisers and intermediaries who provide financial services without discretion
- those who offer discretionary intermediary services, in terms of financial product choice, but without implementing bulking
- hedge-fund managers
- investment administrators specialising mainly in the bulking of collective investments on behalf of clients (linked investment services providers)
- those who represent assistance business administrators who render intermediary services, in terms of the administration of assistance business (funeral policies), on behalf of an insurer to the extent agreed to in a written mandate between the two parties.

### Insurance companies

Insurance is an agreement between a policyholder and an insurance company. It is divided into long and short-term insurance. In terms of the Long-Term Insurance Act, 1998 (Act 52 of 1998) and the Short-Term Insurance Act, 1998

(Act 53 of 1998), all insurance companies must be registered by the FSB and must comply with the provisions of these Acts.

The insurance industry has appointed a short-term and long-term insurance ombudsman to mediate dispute resolution between insurers and policyholders.

### Market abuse

The Directorate: Market Abuse is an FSB committee responsible for combating market abuse in the financial markets in South Africa. The three forms of market abuse prohibited in South Africa are: insider trading, price manipulation and publication of false or misleading statements.

All three forms of market abuse are criminal contraventions. In addition, an offender may be referred to the FSB Enforcement Committee, which can impose unlimited penalties. In the case of insider trading contravention, such penalties are distributed to people who were prejudiced by the offending transactions.

### Retirement funds

To encourage South Africans to save more, employer contributions to retirement funds will become an employee fringe benefit for tax purposes from April 2015.

Individuals will be able to receive a tax deduction on employer and employee contributions to a pension fund, provident fund or retirement annuity fund up to 27,5% of the greater of remuneration and taxable income.

An annual cap on deductible contributions of R350 000 will apply.

In addition, government is exploring ways to increase retirement fund coverage to all workers.

### Enforcement

The Enforcement Committee of the FSB adjudicates on all alleged contraventions of legislation, regulations, and codes of conduct administered by the FSB within the South African non-banking financial services industry.

The FSB administers the following Acts:

- CIS Control Act, 2002 (Act 45 of 2002)
- FSB Act of 1990, the FAIS Act of 2002
- Financial Institutions (Protection of Funds) Act, 2001 (Act 28 of 2001)
- Financial Supervision of the Road Accident Fund Act, 1993, (Act 8 of 1993)
- Friendly Societies Act, 1956 (Act 25 of 1956)
- Inspection of Financial Institutions Act, 1998 (Act 80 of 1998)
- Long-Term Insurance Act of 1998
- Pension Funds Act, 1956 (Act 25 of 1956)
- Short-Term Insurance Act of 1990

- Supervision of the Financial Institutions Rationalisation Act, 1996 (Act 32 of 1996)
- Securities Services Act, 2004 (Act 36 of 2004).

The committee considers cases of alleged contraventions of legislation administered by the FSB. The industries regulated by the FSB include: CISes; FSPs; insurance; nominee companies; retirement funds and friendly societies.

The committee may impose unlimited penalties, compensation orders and cost orders. Such orders are enforceable as if they were judgments of the Supreme Court of South Africa.

### Government bonds

#### Retail bonds

Government issued retail bonds to encourage South African citizens to save and as a diversified source of funding. Retail bonds may be purchased from National Treasury, the South African Post Office and Pick n Pay stores countrywide. Since the introduction of RSA fixed-rate retail savings bonds in May 2004 and inflation-linked retail bonds in April 2007, the cumulative amount issued had reached R21,2 billion by the end of August 2013.

#### Domestic capital market bonds

Increased global demand for emerging markets' higher-yielding debt has led to rising international interest in South African government bonds. In the run-up to the inclusion of South African government bonds in the Citi World Government Bond Index from October 2012, interest in these bonds was very strong.

After the inclusion, however, non-residents' net purchases of local bonds dwindled. In the first nine months of 2013, non-residents purchased a net of only R18 billion's worth of domestic bonds, along with liquidity concerns, given the possible phasing out of stimulus measures.

Among the most traded government bonds in the market are the R157 (13,5%: 2015) and the R186 (10,5%: 2026). Although some upward trend was evident from May 2013, the daily yield on the R157 government bond averaged 5,68% in 2013 to September. The R186 government bond averaged 7,58% in 2013 to September. The average yield spread between the R186 and the R157 bonds widened to an average of about 190 basis points in the nine months to September 2013.

The break-even inflation rate – calculated as the differential between nominal bond yields on conventional government bonds and the real yields on inflation-linked government bonds within the ten-year maturity range – increased from an average of 5,88% in September 2012 to 6,33%

in September 2013. Similarly, the long-term break-even inflation rate (20-year) increased from an average of 6,02% in September 2012 to 6,40% in September 2013, owing to a more pronounced increase in the nominal yields on conventional government bonds.

### Primary market

Net issues of fixed-interest securities in the South African primary bond market increased from R199 billion in 2011 to an annual record high of R269 billion in 2012. National government remained responsible for the bulk of the net issuances in the local bond market, consistent with its elevated funding needs. Government funding in the domestic primary market is, among others, effected through long-term market loans, which comprise fixed-income bonds, inflation-linked bonds, floating-rate notes and retail bonds.

The total nominal value of debt securities listed on the JSE Limited (JSE) increased by R136 billion in the first eight months of 2013 – with a contribution of R96 billion by national government – to reach R1,8 trillion at the end of August 2013.

By December 2013, three new domestic bonds had been issued – the two new fixed-income bonds, R2 030 (8,00%; 2030) and R2 037 (8,5%; 2037), and one new inflation-linked bond, R2 046 (2,5%; 2046).

They were well received by market participants, with their trading values contributing to the improved market turnover. The new issues were in line with announcements in the Budget Review 2013 and two more new fixed-income bonds are expected to be issued in the remainder of 2013/14.

### International bonds

South Africa placed a US\$2 billion 12-year global bond in the international capital markets in September 2013. The bond was priced at an interest of 5,875% and a spread of 315 basis points above the 10-year United States of America (USA) Treasury's benchmark bond.

The interest of 5,875% was 121 basis points higher than the coupon of the 12-year global dollar coupon issued in 2012 at 4,665%.

After reaching a spread of 287 basis points over the underlying US Treasury bond on 1 June 2012, the spread on the RSA global bond maturing in 2024 narrowed to 129 basis points on 9 January 2013, before widening to 224 basis points on 1 October. The new R2 025 bond narrowed to 254 basis points on 1 October 2013.

After net issues declined to R0,1 billion in 2012, rand-denominated bond issuance activity in international bond markets increased in 2013. This was due to more prominent non-resident

issuer interest in rand-denominated bonds in the European bond markets.

Net issues of rand-denominated bonds in the European bond markets amounted to R11 billion in the first nine months of 2013. By contrast, in the Uridashi bond market, redemptions of rand-denominated bonds exceeded issues by R7,4 billion in the first nine months of 2013.

This resulted in total net issues of R3,5 billion in both markets over the nine months to September 2013.

### Secondary market

The local bond market continued to benefit from prudent macro-economic policies, which saw the country through the global financial crisis in 2008. By December 2013, turnover of R16 trillion had been recorded in the bond market.

Non-residents contributed about 10% to total turnover in September 2013, while local investors added the remainder. The bond market capitalisation on the JSE amounted to R1,9 trillion in August 2013, with national government contributing the largest share of 62% to the total market capitalisation. Fixed-rate (including zero-coupon) bonds accounted for 65% of the total listing on the exchange, in terms of instrument composition, while inflation-linked and floating rate contributed 21% and 14%, respectively.

### Exchange rates

Movements in the exchange rate of the rand remained highly volatile, with external and domestic developments having an ongoing effect. In the first quarter of 2013, the rand declined by about 5,7% against a basket of trading-partner currencies. The nominal exchange rate of the rand showed increased levels of volatility when the currency declined by about 6,6% in January 2013, and increased by 4,3% in February, before declining again by 3,2% in March.

The rand came under pressure towards the end of January, weakening to a level of R9,11800 against the US dollar, following the downgrading of South Africa's sovereign credit rating by Fitch rating agency and amid market concerns about global growth, owing to unresolved fiscal issues in the United States. On the domestic front, work stoppages in parts of the mining sector and a further widening in the current-account deficit exerted downward pressure on the rand in March 2013.

The exchange rate of the rand came under more significant pressure from May 2013 onwards, after having modestly benefited during April from the unveiling of large monetary stimulus by the Bank of Japan. The rand's performance

echoed a general sell-off in global financial markets, following the US Federal Reserve's statement that a slowdown in quantitative easing may begin sooner than previously anticipated, which prompted a sell-off in emerging-market currencies and commodity-led currencies.

Slowing growth in China and a downward revision of global growth forecasts compounded the rand's weakness. More specific to South Africa, increasing labour tensions in the mining sector, hedging activities related to renewable energy projects, weak domestic economic growth, concerns about a high fiscal budget deficit and the widening of the current-account deficit also had a negative effect on the rand. The nominal effective exchange rate of the rand consequently declined by 6,8% from the end of March 2013 to the end of June 2013. For the same period, the rand depreciated sharply by 8,9%, 7,2% and 7,6% against the euro, US dollar and British pound, respectively.

The exchange rate of the rand stabilised in July 2013 as concerns about the size of South Africa's current-account deficit subsided. When emerging-market currencies depreciated sharply against the US dollar during August 2013, as concerns about capital outflows from these countries intensified on expectations of tapering of quantitative easing by the US Fed, the rand depreciated to R10,4 against the US dollar. On a trade-weighted basis, the rand declined by 4,1% from the end of June 2013 to the end of August 2013.

In the first half of September 2013, the rand briefly appreciated to R9,55 against the US dollar as the emerging-market currencies appreciated broadly after the Fed delayed tapering its bond purchases programme.

The average net daily turnover in the domestic market for foreign exchange increased by 12,2% from US\$19,5 billion in the first quarter of 2013 to US\$21,9 billion in the second quarter. While both spot and forward transactions increased over this period, the increase can largely be explained by non-residents' participation in the swap market, which increased from an average of US\$6,8 billion per day to US\$7,6 billion per day over the period. This partly reflected foreign investors in the South Africa bond market hedging against the currency.

### Exchange controls

Exchange Control Regulations are administered by the SARB, on behalf of the Minister of Finance. The Minister of Finance has also appointed certain banks to act as authorised dealers in foreign exchange, as well as authorised dealers in foreign exchange with limited authority, which

gives them the right to buy and sell foreign exchange, subject to conditions and within limits prescribed by the Financial Surveillance Department of the SARB. Authorised dealers are not agents for the Financial Surveillance Department, but act on behalf of their customers.

Since 1994, there have been gradual exchange control reforms concerning individuals, corporates and institutional investors. The liberalisation has focused on progressively increasing the individual foreign capital allowance, increasing institutional investors' foreign exposure and allowing South African firms to raise capital and expand their operations offshore from a domestic base.

Under current exchange control regulations, there are no limitations as to how much money may be brought into South Africa, but there are certain limitations on the amount of money that may be transferred out of South Africa.

South African individuals, for example, are currently able to transfer up to R4 million, per individual per calendar year, out of the country and invest it overseas. Additional allowances are available for travel and other defined activities.

For all non-South Africans, there is no limitation on transferring money out of South Africa.

### Johannesburg Stock Exchange Ltd

The JSE Ltd is privately owned and funded, and governed by a board of directors. Its activities are licensed and regulated by two Acts of Parliament, namely the Stock Exchanges Control Act, 1985 (Act 1 of 1985), which governs the equities markets, and the Financial Markets Control Act, 1989 (Act 55 of 1989), which governs the derivatives markets.

In keeping with international practice, the JSE Ltd regulates its members and ensures that markets operate in a transparent way, ensuring investor protection. Similarly, issuers of securities must comply with the JSE Ltd listings requirements, which ensure sufficient disclosure of all information relevant to investors.

The JSE Ltd's roles include regulating applications for listing and ensuring that listed companies continue to meet their obligations. The JSE Ltd monitors applications for alterations to existing listings, and scrutinises company

In February 2013, the Financial Stability Board (FSB) welcomed the shift to a Twin Peaks model for South Africa to streamline responsibilities and elevate the importance of regulating market conduct.

The Twin Peaks approach entailed creating a prudential regulator housed in the South African Reserve Bank, and transforming the FSB into a dedicated regulator of market conduct to maintain and enhance the safety and soundness of regulated financial institutions.

disclosures to the public. It also provides the Stock Exchange News Service through which company news, including price-sensitive information, is distributed to the market.

The JSE Ltd has been bold in restructuring, in view of increasingly tough global competition, adopting new technologies and outsourcing aspects of its business.

The traditional open outcry market, in which traders jostled for deals on a noisy trading floor has now disappeared and been replaced by a less colourful, but faster, computer-driven, trading system (the Johannesburg equities trading screen-based system).

The JSE Ltd has been opened to corporate membership, resulting in a stampede by foreign banks, which have bought out most of the major local broking firms, using these as platforms for other financial services, such as corporate and government advisory work.

The electronic settlement system, Share Transactions Totally Electronic (Strate), has replaced the previous manual settlement method. Strate Ltd is the licensed Central Securities Depository for the electronic settlement of financial instruments in South Africa.

The JSE Ltd's trading and information systems were replaced with the London Stock

Exchange's (LSE) Sequence and the London Market Information Link or LMIL systems, branded JSE SETS and InfoWiz, respectively.

The trading engine and information dissemination feed-handler is hosted in London and connected remotely to the JSE Ltd 9 000 km away, via a transcontinental undersea cable and an innovative, integrated solutions design. More than 1 500 traders and information users access the system, using a sophisticated application service provider with sub-second response time.

The JSE Ltd has also aligned its equities trading model with that of Europe, and reclassified its instruments in line with the Financial Times of London Stock Exchange (FTSE) Global Classification System. This has led to the introduction of the FTSE/JSE Africa Index Series that makes the South African indices comparable to similar indices worldwide.

One of the most reliable trading platforms worldwide now serves the investment community. The LSE can now disseminate trade information about instruments listed on the JSE Ltd to more than 104 000 trading terminals around the world, raising the profile of the JSE Ltd among the members of the international investor community.

