

# SiMODiSA Research: Excon Loop

14 May 2014



# The challenge & current status quo



# Current Regulation

## Regulation 10(1)(c)-

- 10(1) No person shall, except with the permission granted by the Treasury and in accordance with such conditions as the Treasury may impose –
- (c) enter into any transaction whereby capital or any right to capital is directly or indirectly exported from the Republic

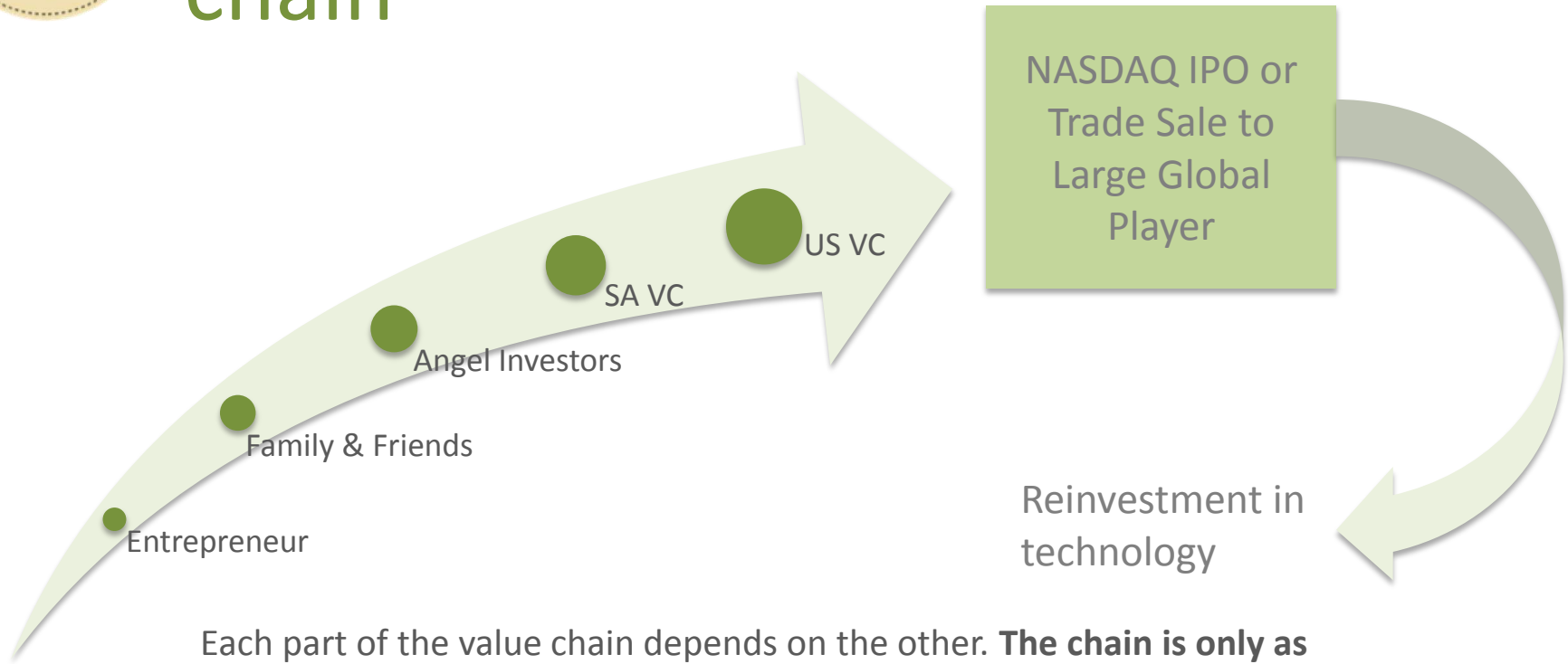


# Excon Loop – Current limitations

- International investors want to see headquarters of a company in the same jurisdiction as their primary mkt (e.g. UK/US)
- No interest in investing in international subsidiaries of South African companies
- Much more interested in investing into an internationally domiciled company with a SA subsidiary (Head office functions located within major mkt, while locate product development/manufacturing/operations locally)
- No experience or interest in working with the barriers of SA applicable legislation
- Lack of venture & development capital in South Africa, limiting international growth
- SA shareholders need to retain shareholding in order to realise future value appreciation possible after re-domiciliation into international jurisdiction



# Funding through the development chain



Each part of the value chain depends on the other. **The chain is only as strong as the weakest link.** If early SA-resident investors are not able to get risk-adjusted returns from internationalising their offering, they will not invest in innovation. If there is no viable international exit, entrepreneurs will not be motivated to take risk and innovate in the first instance.



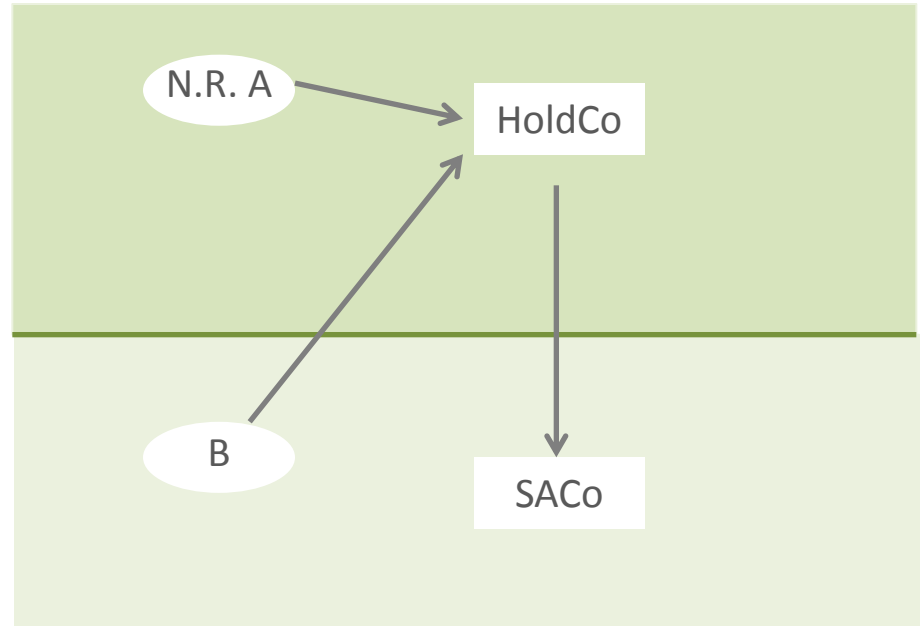
FUTURE AHEAD

Proposed Solution





# Permissible Loop Structure Key Features

Enabling SA residents to domicile companies off-shore to attract international investors & access intl. mkts. (Developed VC market “Holdco” with SA wholly owned subsidiary (“Subco”))



## Key

-  Rest of the World
-  CMA (Common Monetary Area)

 Investment Flows

N.R. A Non-Resident A

B SA resident B: Company/individual/En Commandite Partnership





# Permissible Loop Structure Key Features

- Extend approved SA resident shareholders to include companies, individuals & en commandite partnerships without restriction on shareholder percentage
- Investments in the foreign entity must be made directly by the resident/resident holding entity
- Structure permissible subject to:
  - involvement of a new, arms' length, third party investor to ensure market value funding and flow back of benefit to SA
  - proof of international investor prospect via submission of business plan & / cash flow to Authorised Dealer for “in principal” approval
- If approved, would need to:
  - expand Section 42 (allowing roll-over relief for cross border asset-for share transaction to avoid negative impact of income taxes)
  - remove 64B of the Eighth Schedule to the ITA (deals with capital gains on disposal of shares held in a foreign company)





# Supporting Requirements for Permissible Loop Structure

- Additional Requirements:
  - Clarity on current policy related to ExCon Loops & permissible loop structures
  - Clear, easy guidelines to provide all parties with clarity & confidence on the permissible loop structures



# Thank you

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