INCOMPASS Forex

IFA NEWSLETTER

QUARTER THREE 2021

Welcome to the third edition of our 2021 IFA newsletters.

Our newsletter serves to keep you up to date with what is happening in the money transfer and exchange control environment.

Should you have any queries or require further information, please do not hesitate to contact your local consultant.



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FORWARDING

As part of our service offering to you and your clients, Incompass is able to offer a forward rate service.

Below we will run through some of the key features of forwarding and invite you to contact your dedicated consultant if you should have any queries.

Forward Rate vs. Spot Rate

- **Spot rates explained**

A spot rate, or spot price, is the contracted price for the purchase or sale of a currency for immediate delivery and payment on the spot date, which is normally two business days after the trade date. In other words, the spot rate is the current price quoted for immediate settlement of the contract.

- **Forward rates explained**

A forward rate differs from a spot rate as it is the price for the sale or purchase of a currency at some point in the future. A forward rate is, therefore, the settlement price of a transaction that will not take place until a predetermined date; it is forward-looking.

- **Types of Forward rates**

    - Fixed Forward Contract: This is where the end date or maturity date of the purchased currency is locked in and can only be used on date of maturity.
    - Fully Optional Contract: This is where the end date or maturity date of the purchased currency is NOT locked in and can be used anytime during the date of purchase and date of maturity.
    - Partially Optional Contract: This is a combination of both a fully optional contract and fixed forward contract.

- **Where forward rates may be used**

Forward rates are primarily utilised:

    - To hedge against currency exchange rate risk. As an example, where an order is being made for 6 months in the future and the buyer wishes to protect themselves against an unfavourable currency exchange rate that may arise between when a sale is contracted and when the sale is actually made (the 6 month period).
    - Where someone wishes to 'lock in the rate' for a set period of time that they feel may be a more advantageous rate than the spot rate will be at this time in the future. As an example, where an individual knows they will be transferring ZAR 5 million in 6 months' time into US Dollars and they think the Rand will weaken against the US Dollar during this period.

FORWARDING

- **Examples where forward rates may be appropriate**

  Currency forwards are used for locking in the currency exchange rate for a currency conversion in the future. The most common reasons for doing this are:

  - Buying a property abroad
  - Locking in profits from an upcoming foreign property sale
  - Budgeting for foreign income
  - Budgeting for recurring international payments
  - Locking in an exchange rate for an upcoming foreign invoice

- **Forward rate advantages**

  - Reducing risk – protecting your budget from currency prices moving against you
  - Locking in profits – If you are budgeting you can use a currency forward to lock in profits on a foreign transaction or make sure that an upcoming foreign property purchase does not cost you more than the currency exchange rate.

- **Forward rate disadvantages**

  - The main disadvantage is of course hindsight. One thing to bear in mind when looking at currency risk protection is that hedging can work against you. If you buy a currency forward contract then you could miss out on exchange rates potentially moving in your favour.
  - If the currency moves in your favour, you have missed the gains.
  - Small deposit required still ties up capital
  - An additional spread or forward points are added or deducted making the exchange rate less favourable depending on the forward type being used

- **Forward rates for businesses**

If your business is importing, exporting or exposed to foreign currency in any way, then using forward currency contracts to hedge and manage the risk of currency fluctuations could well be appropriate. Businesses can use forward contracts to lock in a current foreign exchange rate for overseas transactions. The key benefit for companies is that they are able to account accurately for international business in forecasts and budgets.

- **Advice**

Of course, no one can predict where a price may be in the future and as such, Incompass is not able to provide specific advice on whether a forward rate would be more beneficial than a spot rate. Your consultant will, of course, be more than happy to run you and your client through the product and answer any queries you may have.

TAX CLEARANCE APPLICATIONS - PLAN FOR YEAR END.

As you may well already know, the end of the year brings its own set of challenges as many are looking to transfer their funds under their 2021 allowances before the end of the year. Public holidays, people heading on vacation, SARS working on reduced staff, etc. all need to be considered when planning for the end of the year, especially for those needing to apply for tax clearances.

In anticipation of the year end pressures and to aid you in your planning, please see below for some information that may help you and your clients in this regard.

SARS Tax clearances: Year end planning

As we near the end of the year, it will be prudent to look at planning the approach with regard to tax clearance applications.

The following information is to help you understand timeframes in order to ensure that the appropriate plans can be implemented to ensure the best chance of avoiding your clients missing the opportunity to transfer this year under their Foreign Investment Allowance.

SARS timeframes:

SARS Processing time:	SARS have stipulated that their processing time is 21 working days
When do the 21 days start?	The 21 days start as soon as the TCC application has been submitted and the supporting documents uploaded. Sometimes, we can submit both on the same day but in some cases the link to upload the documents is only available after 24 hours.
What is not considered part of the 21 working days?	The days between 15 December and 15 January of the following year do not form part of the 21 working days.
Please note:	Once the application is submitted, whoever has access to the client's e-filing profile can check the status and if there is a change. If we hold access to the profile we will constantly check the profile. Once there is a change of status – we will contact you immediately.

The Process once 21 working days has been reached:

What we can and can't do and what SARS' approach is in this regard.

- Once the 21 working days have expired, we first need to phone the SARS call centre in order to query/escalate the case.
- SARS then issues us with a case number for the query.
- If they still do not attend to the escalation/query after 3 working days, we can lodge a formal complaint via e-filing.
- They then have 7 days to respond by either a phone call or email.
- SARS can then request additional documents or authorise the application.

Preparing for year end:

The days between 15 December and 15 January of the following year do not form part of the 21 working days.
We, therefore, suggest that all applications should be in and submitted by 12 November so that we still have enough time available to query and escalate cases that are not yet finalised before 15 December of each year.
The end of the year tends to get very busy and many clients want to transfer under the current year's allowances before the end of the year.

Pre application checklist:

The following will be able to identify what is required and to allow us to guide you effectively:

- The amount to be applied for.
- Is the client's SARS status compliant and up to date?
- Source of funds - I.e sale of property, a disinvestment, inheritance, savings, etc.
- Who has access to the client's e-filing profile?

Please do not hesitate to contact us if you have any queries and we will be delighted to assist.

Transparency in business

If one word sums up Incompass' attitude to business, it's transparency. Like many purpose driven organisations, we measure ourselves against our mission to be as transparent as possible.

When decisions are made as to how we operate, how we disclose our charges and how we conduct ourselves, the question we always ask is does that 'tick the box' of being transparent.

For those of you who may not have seen the recent article on Incompass in Blue Chip, along with an interview of our MD Nico Le Roux, we invite you to click the image on the right and read pages 63 to 64.



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