

PROCEEDINGS RESUME ON 3 MAY 2002:

CHAIRPERSON: Good morning, let us start today's proceedings. The witness today is Ms Beck.

ALISON BECK d.s.s.

- 5 EXAMINATION BY MR NAIDU: Mrs Beck, did you as part of a team of KPMG contribute towards the compilation of the report which is presented to the Commission today relating to the results of your investigation into the statistical and other data? --- I did.

Is your curriculum vitae and those of the other key members of the team contained in the annexure bundle under number 10? --- It is yes.

- 10 Can you describe briefly your experience in the financial market? --- I am currently a partner in the financial services advisory group at KPMG. I am the executive director of KPMG's finance company and the managing director of the Group 31, a joint venture between KPMG and .. (inaudible), a listed company. I have been with KPMG for 12 years during which I have been seconded in two listed companies as corporate treasurer and also
- 15 to a bank as treasurer. As a treasurer of the listed company I had to manage and close large unauthorised ... against the dollar totalling 150 million US Dollars and had to manage the daily Forex purchases. I have acted as an expert witness for the South African Reserve Bank for the prosecution of contravention of exchange control. One of my roles at KPMG is to advise Forex on exchange control and submit applications to authorised dealers for on
- 20 submission to Exchange Control. However, the majority of my time is consultant to corporates of financial risk management. I also manage KPMG's foreign purchases and sales. Prior to joining KPMG I was financial manager of the international division of Standard Bank of South Africa where amongst other things I was responsible for the daily and monthly foreign exchange reporting to management and the Reserve Bank. My professional
- 25 qualifications are a B Com, (indistinct) University, CA, a certified associate of the Institute of Bankers of South Africa, a member of the corporate treasury. In addition, I am the technical director for the Association of Corporate Treasurers of South Africa and a member of the South African Institute of Chartered Accountants, Exchange Control .. (inaudible).

- In your report on page 3 you identify the objectives and the sources of your
- 30 information in paragraph 3 of the report. Would you like to briefly deal with the nature and extent of your investigation as set out in paragraphs 6 to 12? --- KPMG was appointed at the beginning of February and our investigation quoted in this report took place over that time. Our team consisted of a variety of experts in exchange control, financial areas and computer. We collected data from the Reserve Bank, from authorised dealers and
- 35 corporates and we checked the integrity of the data that we received from the Reserve Bank, balancing their information and facts, their data base. Our information which we gathered covers the whole of 2001. Certain aspects of the information we got from the Reserve Bank but only from 1 April through to 31 December but we do not see that as compromising our scope of the work.

- 40 And apart from the conclusions in your report you deal with the approach and the methods adopted and are you satisfied that your approach and method were sound and that the extent of your investigations was sufficient to fulfil your mandate? --- Yes.

- And are you also satisfied that subject to certain scope restrictions which you are going to deal with, that your approach would more than likely, more likely than not reveal
- 45 significant transactions that caused or contributed to the rapid depreciation of the rand during 2001? --- Yes.

The scope of your investigation is set out in paragraph 13 and in paragraph 14 lists of those transactions that have been excluded, am I correct? --- Yes.

- 50 And the reason for the exclusions are set out in paragraph 15 of your report? --- Yes.

The working method adopted which you deal with and in paragraph 17 you make the point that the exchange rate of the rand would be affected when a spot or an outright forward contract is taken out, that is the transaction date, and not when the funds flow? --- That is right.

- 55 Would you like to elaborate on that? --- Well the transaction date when a spot or the outright forward is the day on which the price is actually concluded and that is the day that it is more than likely to affect the exchange rate. There are occasions where if this information leak or people have advance knowledge of a deal that it might .. (inaudible) before or if the market has not been aware or only maybe one bank has been aware that knowledge of the
- 60 transaction after the transaction date it might affect .. (inaudible) but more than likely it would

be after the transaction date.

You then in paragraph 20 identify for the purposes of this report what factors you identified, analysed and investigated and you list on page 9 the conclusions pursuant to your investigation. Would you like to read that into the record? --- These are the conclusions of

5 our investigations:

24."Without suggesting any illegality, collusion, unethical conduct, improper gain or improper avoidance of loss, the following or series of transactions might have contributed to the rapid depreciation of the rand during 2001:

24.1On 13 November 2001 Excon issued circular D346, which permitted a new class of institutional investor to invest a portion of their funds offshore. Following this circular, Excon approved applications of approximately R1,9 billion to be invested offshore on or before 31 December 2001. As a consequence, the foreign currency equivalent of R1,765 billion had to be bought by institutional investors in an illiquid and volatile market. The rand fell from R10,25 on 1 December 2001 to R11,978 on 31 December 2001 but reached a low of R13,81 on 21 December 2001;

15 24.2Due to a false press report that N V Interbrew SA ("Interbrew") was going to acquire or merge with South African Breweries Plc ("SAB") there was an unusually high level of trading in SAB shares. There was also a high level of trading in other South African shares in late November and December. On 7 December 2001 there was an unusually high outflow from South Africa of foreign currency relating to share transactions by non-residents;

20 24.3In 2001 both Anglo Gold Ltd ("Anglo Gold") and De Beers Consolidated Mines Limited ("De Beers") changed their hedging policies. This resulted in reduced dollars being available in the US Dollar/rand market compared to 2000. The impact hereof on the US Dollar/rand exchange rate is impossible to assess as it would have been spread over the year."

The following instances I am going to bring out. It might surprise you the sizes of these

25 transactions and they are small transactions which in a normal market, foreign exchange market, would not have affected the rand but during December in a very thin market these transactions with some of the large transactions dealt over the December period could have affected the rand.

"24.4Dow AgroSciences Southern Africa (Pty) Ltd ("Dow Agro") bought US Dollars 26 million on 21 December 2001 for dollars that were due to be delivered on 28 December 2001. The US Dollar related to part of a liquidation dividend that did not materialise. Although the rand appreciated against the US Dollar on 21 December 2001, it hit a low of R13,81 during the day.

24.5During October to December 2001 Sasol Ltd ("Sasol") purchased unusually high levels of foreign currency for capital expenditure and foreign investment. These were concluded during the September to December 2001 period of rapid depreciation of the rand.

24.6On 5 December 2001 Ethos Private Equity Limited ("Ethos") bought net US Dollars 10 million as a hedge for an underlying transaction. The rand fell from R10,57 to R11,16 on 5 December 2001;

24.7Harmony Gold Mining Ltd ("Harmony") invested 18,1 million Ausie Dollars which is the equivalent to approximately 14,6 million US Dollars, offshore on 13 December 2002 in one amount. The rand fell from R11,11 to R11,48 on 13 December 2001.

24.8The offshore listed companies net outflow of dividends during 2001 is significant and might have contributed to the rapid depreciation of the rand in 2001. However, offshore listed companies did not contribute significantly to the rapid depreciation of the rand in the fourth quarter of 2001.45

25.During the week ending 7 December 2001, Equity Diamond Cutting Works (pty) Ltd ("Equity Diamonds") bought and sold amounts of US Dollars that was out of proportion to its underlying commitments. It made losses of R7 950 700. These transactions may have contributed to the rapid depreciation of the rand during this week. During this week, the rand depreciated against the US Dollar from R10,25 to R11,19. Transactions in excess of underlying commitments would be a contravention of exchange control. This has been reported to the Exchange Control Department of the Reserve Bank."

CHAIRPERSON: Could I just ask a question while we are there, when you say it made losses, do you mean it made nett losses? --- Nett losses yes.

55 At the end of the day as a result of its buying and selling it was a nett loss? --- It was only one or two transactions, the very first two transactions that made a profit of R105 000 and R100 000, thereafter all the transactions made losses.

Continue please. ---

"26.Save for the above, we did not identify any transaction that might have caused or contributed to the rapid depreciation of the rand during 2001.

27. Save for what has been stated in paragraph 5, we did not find any facts that may indicate:

27.1 That any of the abovementioned transactions were illegal;

27.2 That any of the abovementioned entities were involved in collusion; or

27.3 That any of the abovementioned transactions resulted in an improper gain or improper avoidance of loss on the part of the abovementioned entities.

28. Our analysis of net sales of rand by non-residents gave no indication that the non-resident banks were responsible for the rapid depreciation of the rand during November and December 2001.

29. From our analysis there is no indication that after hours trading by non-residents caused or contributed to the rapid depreciation of the rand during 2001.

10 MR NAIDU: Mrs Beck, before you proceed, were you present during the evidence given by Mr Immelman on behalf of D & T, your evidence in relation to those paragraphs 24.4, how does that in any way impact or affect the test adopted by Deloitte & Touche? --- Our approach was to look at all the corporates over the last four months of the year and we used it by taking information submitted by the authorised dealers to the Reserve Bank, their top 15
15 counter parties and we analysed them in great detail to see who the major traders were. And it was not so much materiality as set out by Deloitte's as to who were the major participants in the foreign exchange market over that period.

Is it correct also that the Deloitte's transactions were inter-bank transactions? --- Yes, they were inter-bank, they were corporate transactions .. (inaudible).

20 You then proceed to discuss the investigation you refer to in paragraph and in paragraph 31 you identify the days in 2001 in which there were large movements in the US Dollar/Rand exchange rate. Now how did these days compare with the days identified by Deloitte & Touche? --- The days that were identified is what we call hot days, was identified jointly by Deloitte's and ourselves and these days that we used are exactly the same days
25 that Deloitte's used in their questionnaires that were sent to the authorised dealers.

And the day that you identified as set out in paragraph 34 of your report? --- And as shown on the screen at the moment.

On the screen yes. Is that table 1 that you are referring to? --- Table 1, yes.

30 And then on page 14 you deal with the selected categories of large net flows of foreign currency in rand terms? --- Yes.

You may deal with this the way you prefer, Mrs Beck? --- What we did, we took information supplied to us by the Exchange Control Department which came from the balance of payments information given by the authorised dealers and we looked at the different categories to identify those where the bulk of the transactions occurred and if you
35 look at this table, Table 2 from the report, there are seven categories where the bulk of the transactions occurred. We selected these seven categories to investigate. If you look at that table, it is only 7,78% of the total outflows were basically excluded from our investigations. We then looked at the inflows and the outflows in that place of those balance of payment categories and identified the days when there were unusual outflows in those categories.
40 And if we look at the first slide here, and I am sorry the colour is not particularly great, in fact we see imports of goods under .. (inaudible) excluding freight and insurance.

Where do we find that? --- It is in Annexure 5.1.

Is that in the annexure bundle? --- In the annexure bundle, 5.1 to 5.8. So from that analysis we identified two days when there was significant outflow of funds.

45 Is that 30 April 2001, is that the first one. --- That is right and the other one .. (intervenes)

Is in November. --- Is 19 November. And we did this for all of those categories and I will just pick them up briefly to show you. As you can see from dividends there is a constant outflow of funds.

50 You are referring now to 5.2? --- 5.3.

Is it 5.3.

MS QUNTA: Excuse me, I am lost, are these, because I am here with the bundles, the annexure bundles. Are they marked?

MR NAIDU: They are not marked unfortunately but you can list them number 5.

55 MS QUNTA: So we actually have to mark them now?

MR NAIDU: Yes.

MS QUNTA: Okay, can you give me, which of the slides are you dealing with? --- Okay, I have not put this, that is 5.1. I have not put up 5.2, okay. I am going to put up 5.3 which is dividends.

60 Okay, that is 401? --- Yes, and the 401 refers to the balance of payment category

now. And we did not identify any specific day and I will show you later on how we addressed the dividends issue. That is a graph showing the purchase and sale of domestic bonds by non-residents and on the bonds we have got 12 April, this is significant, and then there are some dates in September and October and December. I think that just shows you that there is constant in and outflow of bonds. That is the money market instruments.

You are now referring to 5.6. The one on the screen, Mrs Beck, is 5.6? --- That one is 5.8.

MS QUNTA: Perhaps during the break you can take our bundles and mark them because I am getting confused. --- I think basically what we are trying to show is the matters which we have used and we have identified the days when the flows were out of alignment.

MR NAIDU: Yes? --- This table is table 3 and this shows the date we considered for further analysis and those in the far right column are the amounts that we drill down into. If I look at the first category, the imported goods, that 5.9 billion, the first item, when we drill down and identify the transaction was actually an input error by one of the authorised dealers and the amount which was entered was R5,8 billion and it should have been R5,8 million. They had a software problem and this has occurred with three transactions there. The R5,9 billion and the inputs and the details of shares is R4.3 billion, that should only be 43 million and the R21 billion should have only been R21 million.

This table that you are referring to is on page 19 of your report. --- Yes. The other imported goods item is R1,9 million, the second item from the top. That was a transaction by BMW. BMW is a nett exporter of goods, both imports and exports and what it does, it receives its foreign proceeds into a CFC account during the month and usually round the middle of the month it pays for its imports using its export proceeds. So .. (indistinct) the export proceeds and buys and then pays for its imports. Now the only reason we identified that transaction is that the balance of payments system requires you to show both the imports and the exports which had absolutely no effect on the rand .. (inaudible).

And you also add that it did not constitute an exchange control contravention? --- It is not a contravention. The lower half of the table. When we came to dividend, from the graph you can see there was a constant outflow of dividends and we felt that to investigate this dividend flow would not be of any benefit but we were aware that it was a major concern of the South African companies who gained a primary listing in London and so we decided to look at and compare what the inflow and outflow was this year on last year and then see the effect that the primary listing companies had. This table which I have put up .. (intervenes)

It is Table 4 and 5? --- Table 4 and 5.

On page 23 of your report. --- I think what is interesting from these two tables, if we look at the first one, if we look at 2001 against 2000 for the inflow, is that our inflow actually dropped by 10%. The reasons for that could be that our listed, companies that are listing offshore, they used to get dividends in from their offshore subsidiaries to South Africa and now that money is going directly to London. So we are not seeing a dividend inflow into South Africa and it is bypassing South Africa.

CHAIRPERSON: Sorry, you are dealing here with 2000, are you? --- Yes, if I compare 2000 had R20 million inflow in the top table compared to R18 million this year. Billion, sorry.

MR NAIDU: The column in the extreme right. --- The top, R20 billion versus R18 billion.

Yes, I am with you. --- Whereas if we look at the overall outflow we had almost 100% increase in outflow of dividends this year from last year. If we look at the effect of the primary listings we have had, although they have contributed to this outflow, in the last quarter the effect was minimal and we actually analysed that dividend payment to see when the currency was bought. It was all bought in small prices and therefore in our opinion did not affect the rand and there was no contravention of exchange control. When we looked at our share trading, we initially drilled down to transactions and we could find out the name of the authorised dealer that moved the funds and the broker and the amount that was transferred but it did not give us any indication of the shares which has been traded.

Sorry to interrupt you, you are referring to the table on page 26 of your report? --- I am.

That is the schedule that is on the screen? --- Yes. So we analysed the trading of shares and we identified that there was very large and unusual share volumes in Brewery shares during November and December and this slide shows this great significant increase in volume on 28 November. We confirmed this with Breweries and it was established that there was an unauthorised leakage in the UK media overnight on 27 December of a document allegedly falsified and allegedly attributable to Interbrew's investment bankers

which included an apparent intention of Interbrew to acquire or merge with Breweries. The release of this information resulted in Breweries being designated by the UK City Panel on Takeovers as an offeree on 28 November 2001. On 30 November 2001 Interbrew announced that the leaked document had been falsified and had no intention of making an offer for SAB. The Financial Services Authority is conducting investigation into this falsely leaked information. I think I would just like to point out that Breweries shares, actually 60% is held by non-residents. So the trading in Breweries shares has a very large element of non-residents. This unusually high volume in Breweries shares on the JSE during the week ending 30 November 2001 may have resulted in the following: The sale of SAB shares on the JSE by non-residents; and the purchase and large outflow of foreign currency after settlement in the week ending 7 December 2001. We were unable to determine whether any of these shares were hedged. As purchases and sales of shares do not require Exchange Control approval and certain branches of the authorised dealers are responsible for ensuring that exchange is correctly applied.

In table 3, item 3, you deal with an unauthorised dealer system error. --- Yes. And here I come back to the table that we showed earlier which is table 3. Domestic bonds, as we stated earlier that 21 billion is an input error. We did a similar exercise to the shares where we tried to identify the bonds that were underlying the transactions on 6 December and 20 December. However, we could not find out which bonds related to which transactions, so we decided that it would not be beneficial to pursue that. We did look at the analysis that was provided to us from the Bond Exchange to look into which bonds were being traded and there were three bonds and there was no unusual transactions in it. But I think what we can conclude from the data we received from the Bond Exchange is that the bond market is very liquid and that non-residents trade extensively in this market. Non-residents invest in South African bond markets for several reasons, including the high yields which is offered compared to bonds in other countries, e.g. US treasury bonds. However, when the Dollar/Rand exchange rate drops, there is a point when the currency loss matches the additional yield obtained. When this happens, non-residents will sell and require foreign currency (usually US Dollars) to take their funds offshore. The increased demand for foreign currency leads to a drop in the Dollar/Rand exchange rate which in turn leads to more selling of bonds, causing a spiral effect. It is unclear whether the sale of bonds triggered the fall in the rand or vice versa. We were also unable to determine whether the bonds are hedged. The money market instruments and payments not classified. There are two categories. We did not find any transactions that were unusual or large and consequently we have not investigated those further. When we came to look at the repayment of foreign loans, we did identify transactions but on considering that when a foreign loan is built in, it is normal market practice by a corporate treasurer to take forward cover either to the maturity date or at least some forward cover, at least a year. So what tends to happen is they sell foreign currency at spot and they buy forward which always has an effect on the exchange rate. Consequently we did not eventually go into this category any further.

CHAIRPERSON: Where are we now in the report? --- That is at the end of page 33. We received from the Reserve Bank daily information on the transactions between the non-resident banks and the South African authorised dealers and we identified days when the non-residents were large nett sellers of rand.

MR NAIDU: You are dealing with page 33? --- Yes. Having identified the days on which there were large sales, we compared them to the days that we deemed hot days when the rand fell, there were only three days where these coincided. In fact it was only two days which coincided, 30 November and 5 December. However, we did pick up a large transaction on 19 November and this is on the screen in Table 6. The large transaction related to Standard Bank London and we noticed it had no effect on the exchange rate. When we followed up we discovered that there was also an option transaction with Standard Bank and Standard Bank London which made the whole transaction apparently neutral, and that is why the rand was not affected.

Table 6 is on page 35. --- Yes. We also looked at the transactions on the 30th November and 5th December and concluded that the volumes were not significant and we did not investigate any further. However, having analysed the data we were able to conclude that on 10 out of 23 business days in November and 4 out of 19 business days in December the non-resident banks were net sellers of rand. Non-resident banks were therefore buying rand and selling dollars to the authorised dealers for most of the time (28 out of 42 business days) during November and December. This would have supported the rand. This analysis

gives no indication that non-resident banks were responsible for a depreciation of the rand during November and December 2001. However, the volume of the dollars sold by the non-resident banks had decreased over this period, and this was confirmed by the Governor of the Reserve Bank in his statement to the Commission, whilst the demand for dollars had not
5 decreased. This fact and not the large scale selling of rand by non-resident banks put pressure on the rand. And then on page 37.

Yes, continue please. --- We looked at the applications made in 2001 by residents to invest offshore more than R100 million. This information was supplied to us by the Exchange Control Department. We looked at 69 applications. This covered both corporate
10 investors and institutional investors. We then contacted the corporate or the institutions to ascertain the transaction date that these applications were, or at least when the foreign currency was taken offshore and we compared those days with the rapid depreciation of the rand, the hot days and we identified five transactions where there investment on hot days, which is shown on table 7.

Page 39 of your report. --- I apologise for the heading there in red and we have not been able to change it so you can read it but I think it is quite clear. The first one is Harmony who invested in Bendigo Mining in Australia. Harmony invested 50 million Ausie Dollars offshore on 13 December 2001 which is the equivalent of 26 million dollars. Harmony
15 simultaneously sold export proceeds of US Dollars 11,4 to fund part of the investment and effectively purchased US Dollars 14,6 million on 20 December 2001 on the foreign exchange market. Although the funding of the investment was done as a deal of 50 million Ausie Dollars (US Dollars 26 million) it was effectively only 28,1 million Ausie Dollars but that would have been large enough to have moved the market at that time.

Mrs Beck, before you proceed, before finalising your report, did you present your preliminary findings to the banks and the corporates referred to in this section? --- The three
25 corporates or banks mentioned in this report has had a view of the section reported in this report, so everything has been clarified with them.

Go ahead? --- The second item is that Standard Bank invested 20 million in Standard Mauritius. This transaction was concluded in small amounts of R2 and R3 million
30 dollars with different counterparties to avoid moving the market. Although this transaction may have contributed to the depreciation of the rand, the size of the tranches makes it unlikely that it would have had a significant effect. Vodacom invested in Vodacom Congo on 3 December 2001, investing 39 million Dollars. However, the forward contract was taken out on 2 November 2001, which was not a day of rapid depreciation of the rand. ABSA Ltd and
35 Banco Astral in Mozambique. On 31 December 2001 ABSA invested 4 million dollars offshore and although it is not a significant amount and was dealt in December on a day when the rand did not depreciate significantly, it only depreciated one cent. BOE Ltd invested in BOE International on 12 September 2001. BOE invested 22 million pounds offshore. Although the rand depreciated on this day, it was the events in the USA that moved
40 the rand rather than transactions in South Africa. I move from the corporates and banks to institutional investors, which is on page 41.

41, yes. --- By institutional investor I mean the pension funds, long term insurance, unit trust and fund managers. The institutional investors are allowed to invest a portion of their funds offshore each year. Our enquiries indicated that institutional investors tended to
45 take out their allowances in tranches, beginning after the release of the annual Excon circular (normally close to the budget day speech) continuing through the second quarter of each year. However, on 13 November 2001 Excon issued circular D346 which permitted an additional class investor (namely fund managers) to invest a portion of their funds offshore. Consequently, applications totalling R1,9 billion were received in November 2001 and
50 approved by Excon in December 2001. The approvals expired (within 30 days or the latest 31 December 2001). In order to utilise their allowances before expiry, these institutions bought foreign currency to buy shares and/or placed the foreign currency on deposit in anticipation of buying shares in 2002. SCMB Securities (Pty) Ltd obtained an extension to use its allowance until 2002. The abovementioned purchases by institutional investors of
55 foreign currency may have given rise to or contributed to the rapid depreciation of the rand in December 2001. The Exchange Control Department of the Reserve Bank informed me that they gave until 31 December to these fund managers to utilise their finances, to bring them into line with the other financial institutions, in other words the pension funds and the insurance companies who had up until 31 December to complete their investments offshore.

60 On page 42 you deal with the process of identifying resident corporates, the most

active ones. The submission of the questionnaires to these selected corporates and on page 43 you indicate that you identified certain corporates, their responses to the questionnaires and you deal with the discussions and you set out your conclusions. Would you like to deal with them, from pages 167 onwards, sorry paragraph 167 onwards? --- Okay. We identified that the large or unusual transactions identified from the responses to the questionnaires and discussions and have set out our conclusions in this regard.

Those corporates that were sent questionnaires, are those identified in paragraph 165? --- They are, it is Anglo American Corporation of South Africa Ltd, Anglo Gold, Anglo American Platinum Corporation Ltd, Dow Agro, BP Southern Africa (Pty) Ltd, Engen Petroleum Ltd, De Beers, Sasol, Eskom, Ethos and Equity Diamonds.

Anglo American Corporation of South Africa Ltd: Anglo American has Exchange Control approval to invest up to 150 million US Dollars of their surplus funds offshore. Transactions flowing from this approval do not affect the rand because, if the funds are invested abroad, dollars are bought at spot and covered forward to maturity date. To ensure that dividend remittance (purchase of foreign currency to pay dividends offshore) occurs in an orderly fashion, Excon has given approval for Anglo American to remit amounts in a manner that causes minimal disruption to the foreign exchange market. Anglo American transacted in accordance with its approval.

Anglo Gold Ltd: During early 2001 Anglo Gold changed its hedging policy on gold export proceeds. In terms of an internal Anglo Gold policy decision, up to 50% of Anglo Gold's five year forecast production could previously be sold forward. Historically Anglo Gold has hedged some of its production in rands and some in US Dollars. In early 2001 Anglo Gold decided to reduce the level of gold sold forward and priced in rands in favour of forward sales priced in US Dollars only. As a result in 2001 the company delivered production into existing rand-priced forward sales in which the dollar revenues had already been sold and priced previously. The majority of the sales proceeds received in 2001 were accordingly not sold in the spot market, and this has continued in 2002. Anglo Gold therefore sold a smaller amount of US Dollars in the spot and forward markets in 2001 than they had done in previous years. This may have had a negative effect on the rand exchange rate but is not illegal or unethical.

Anglo American Platinum Corporation Ltd: In terms of exchange control dividends are required to be remitted immediately. Amplats were given permission by Excon to retain, for a maximum period of six months, offshore a dividend of US Dollars 36 million that they may have required for a potential offshore investment. The dividend was remitted in September 2001 within the six-month period and exchange control was complied with. This transaction would not have lead to a rapid depreciation of the rand.

BP Southern Africa (Pty) Ltd:

BP stated that they had problems in obtaining payment from businesses in African countries within agreed credit terms. This was due to a shortage of foreign and cash flow problems of debtors, especially government and quasi-government debtors. At 31 December 2001 BP had overdue foreign debtors of WD Dollars 12 million that exceeded 180 days that has been reported to their bankers. There is no contravention of exchange control as the excess has been reported. The value of these transactions is unlikely to have affected the rand.

De Beers Consolidated Mines Limited:

With the restructuring of De Beers there was a change in the hedging policy for exports by the management of De Beers. Previously the proceeds from the sale of exports were remitted to South Africa immediately upon receipt. From July 2001 De Beers granted credit terms of 180 days to the purchaser of its diamonds, DTC London. This change in policy has delayed the flow of dollars in the US Dollars/rand exchange market and my have negatively affected the rand exchange rate. Exchange control has not been contravened and this change in policy is not illegal or unethical.

Dow Agro-Sciences Southern Africa (Pty) Ltd:

Dow Agro wound up an offshore insurance company, which was anticipated would have US Dollars 26 million reserves that would be repatriated to South Africa. Dow Agro sold US Dollars forward in July 2001 for settlement on 28 December 2001, being of the view that the rand would strengthen or maintain its current levels. In addition, by selling US Dollars forward, Dow Agro could benefit from the interest or forward points and obtain a better US Dollar/rand rate. The US Dollars anticipated reserves did not materialise and Dow Agro had to purchase the dollars on 21 December 2001 for settlement on 28 December 2001. However Dow Agro did transfer the balance of the reserves of R205 million in

accordance with Excon. This transaction may have contributed to the depreciation of the rand. There was no exchange control contravention.

Engen Petroleum Ltd:

5 Engen stated that, although all their debtors are within exchange control requirements, they do have debtors exceeding their credit limits. These relate to exports to African countries where there are a shortage of foreign currency and cash flow problems, e.g. Zimbabwe. There is no contravention of exchange control. The value of these transactions is unlikely to have affected the Rand.

Eskom:

10 South African Companies may take forward cover when they have a firm commitment in foreign currency. If the invoice is in rand, no forward cover may be bought without Excon approval. Eskom has Excon approval to take forward for the foreign content of contracts between Eskom and contractors, despite the fact that the contractors invoice in rand and that Eskom pays in rand. Eskom requires such forward cover because in the
15 invoice, the foreign content of the contract (e.g. machinery imported by the contractor) is converted by the contractor to rand at the current exchange rate on the date of the invoice. On the date when Eskom pays the contractor, Eskom sells the forward cover, effectively cancelling the original forward cover. The purchasing by Eskom of forward may have contributed to the rapid depreciation of the rand, but this would not be in contravention of
20 exchange control. However, the cancellation by Eskom may have contributed to the appreciation of the rand. Eskom had significant cancellations in both November and December 2001.

Ethos Private Equity Ltd:

25 Although Ethos concluded significant foreign exchange transactions in the first two weeks of December 2001, it was hedging an underlying transaction. No over-hedging occurred and exchange control was not contravened. The transactions of US Dollars 10 million on 5 December may have contributed to the depreciation of the Rand. This transaction was neither illegal nor unethical.

Equity Diamond Cutting Works (Pty) Ltd:

30 Equity Diamonds exports approximately US Dollar 5 million per month. It also has some imports payable in US Dollars. In the week ending 7 December 2001, Equity Diamonds bought US Dollar 65 million spot and sold US Dollar 50 million spot and US Dollar 10 million forward. These amounts were done in US Dollars 10, US Dollars 5 and US Dollars 3 million transactions. Equity Diamonds made a loss of R7 950 700 on these deals. All
35 these transactions were dealt through Nedbank. Nedbank identified the excessive trading in December and suspended the direct dealing facility that Equity Diamonds had with the dealing room. We are advised by the Managing Director of Equity Diamonds that they had no intention of speculating in the rand and were merely trying to ensure that their profits were protected from movements in exchange rates. Equity Diamonds had underlying
40 commitments of a maximum of US Dollars 10 million and accordingly to the extent to which its dealing exceed normal hedging activities they would be speculative in nature. At one point on 7 December 2001 Equity Diamonds had sold US Dollars 39 million with an underlying exposure of US Dollars 10 million. Exchange control prohibits a South African resident, either a person or entity from speculating in the rand. The transactions in excess of
45 underlying commitments would be a contravention of exchange control. The transactions executed by Equity Diamonds may have contributed to the rapid depreciation of the rand.

MR NAIDU: Do you have any figures for the nine months preceding the end of December, what their exports proceeds were? --- Their export proceeds including the transactions that I am referring to, the 65 million bought and 16 million sold, they had in the nine months
50 preceding December they had export proceeds of a foreign currency movement of R260 million. There are notes that export proceeds was between US Dollars 30 and 32 million in the nine months to December 31st.

Sasol Limited:

55 From the period September to December 2001 Sasol was unusually active in the foreign exchange market purchasing both US Dollars and Euros for capital imports relating to the Mozambique pipeline and oxygen plant and the offshore investment to Sasol Chevron. Sasol purchased the following relating to the pipeline and oxygen plant: Between 27 September and 28 December 2001 they bought R123 million US Dollars. Between 1 October and 11 December 2001 they bought 72,5 million Euro. Sasol purchased the
60 following relating to the offshore investment in Sasol Chevron: Between 13 December 2001

to 21 December 2001 they bought 80 million US Dollars. These transactions may have contributed to the rapid depreciation of the rand during late November to December 2001. No exchange control contravention occurred.

In addition to looking at the corporates, we looked at the after hours trading of the dollar/rand. This is annexure 9. The blue line is the interday movement and the red line is the overnight movement from 1 January to 31 December. This graph reflects that overnight movements in the Dollar/Rand exchange rate are considerably less significant than those during the normal trading day, even in periods when the rand was moving rapidly. Consequently no further investigation of after hours trading was considered necessary.

That is the end of my report with the conclusions having been previously given on page 9.

We have no further questions at this stage on this report.

CHAIRPERSON: Are there any questions from the floor after this report? Any questions from the Commission? I have no questions? Any further questions from you, Mr Naidu?

MR NAIDU: No, thank you.

CHAIRPERSON: Okay, we can go onto the next report.

MR NAIDU: Mrs Beck, before you proceed, would you like to effect certain changes to the members to this report? --- Yes, we had a meeting with the Exchange Control Department of the Reserve Bank and their lawyers late yesterday afternoon and we have agreed to change certain wording because it is felt that we gave an incorrect impression and I would like you to follow the changes which I am going to give now so that there is no misunderstanding.

The changes were effected as a result of an amicable discussion between you and the Reserve Bank, no pressures I take it? --- Yes.

Go on. --- Now page 13, the heading at the top of the page, instead of witnesses we decided to call it Draw Backs.

The next? --- Paragraph 89, it starts competent which was very sensitive. At the end of that paragraph I would like to insert "i.e. authorised dealers, external auditors, exchange control and corporates". On page 21, paragraph 112, before 112 I would like to insert a line: "It is perceived by some of the corporates that" and then it would follow on "exchange control ... (inaudible)" and if you can put a semi colon there and cross out "examples are the following". And then paragraph 113, the first three words, if you can delete those.

CHAIRPERSON: So that sentence begins "Excon .. (speaking together) --- Yes and this is what is perceived by some corporates.

MR NAIDU: In other words, Mr Chairman, the opening words "it is perceived by some of the corporates" would be the preamble to paragraph 112, 113 and 114.

CHAIRPERSON: Alright. I think, to avoid any confusion in this regard you must redraft your report and we will substitute it, for our purposes so that we understand what we are doing at the moment. --- I will redraft it. At the end of 113, that last paragraph where it says, "smaller privately owned companies". If you can remove the second "smaller" and then after companies "to gain approval". Let me read that sentence: "Excon states it appears to be easier for the listed and larger companies than the smaller privately owned companies to gain approval due to the company track record with Excon." And then under 114, the last sentence we would like to continue "and the longer term benefits is open to interpretation since it is subject to discretion of exchange control" and then insert "however, the corporates are not suggesting any collusion between the listed and large corporates and Excon". And paragraph 118 on page 22, just the beginning of that paragraph the insertion of "in the future". And on page 28, paragraph 142 I would like to insert the word gradual in front of abolition, so it would read: "The negative consequences of a gradual abolition".

Page 23, paragraph 125, is it regulations or rulings? --- Ruling.

And paragraph 127, do you want to retain the word "only" or substitute the word "main"? --- I want to leave only.

Thank you. You deal on page 1 with the terms of reference and you identify the purpose of exchange control from the statement made by Mr Alex Bruce-Brand in paragraph 3. You deal with your approach on page 2 and in paragraph 13 on page 3 dealing with the second stage you limited the investigation to applications exceeding R100 million. Can you say why? --- Well initially we chose R100 million because we were not sure, we first of all said let us try R100 million and see how many transactions we get, how many approvals because we were not sure whether this would give us like 2 000 or 20. So we applied R100 million which is roughly the equivalent of \$10 million and that gave us 69 transactions and we

were quite comfortable with that election.

In page 3 you deal with the exchange control administration and you identify the structure at the top of page 4 and the relationship. On page 7 you talk about the applications on average received by Excon a week and the internal processes of Excon you deal with in paragraphs 36 to 47. And the inspections in paragraphs 48 to 53. The export and import undertakings in paragraphs 54 to 66. Is there anything you would like to add to anything contained therein? --- No everything is mentioned in the report.

And you identify the strength of exchange control administration in paragraphs, on page 12 and the draw backs commencing on page 13. Now would you like to make any statement at the outset before proceeding with the draw backs? --- I think it is important to see that these are not a criticism of the Exchange Control Department. They are a criticism rather of exchange control and the ability to administer it by all parties that are responsible and that is exchange control, the authorised dealers and the external auditors.

Mrs Beck, would you look at paragraph 72 and from the statement you make here it appears that there is a prohibition imposed upon authorised dealers against accepting any foreign currency from other authorised dealers without the Form MT100. Where is this prohibition contained? --- It is in part of the rulings.

Paragraph 74, the second sentence, you say that some authorised dealers receive funds and these MT100 form without being able to assume that it is new funds at its own risk to follow up manually. Now can you explain that in the light of the statement in paragraph 72 that the authorised dealers must be aware of the specific prohibition against this kind of conduct? --- I think there is a couple of aspects to it, it is when you get funds in your client is expecting to see that money in their account today and they do not want any hold up to the funds being credited and the bank is under pressure to credit it so there were no later interest claims. The other problem is identifying which funds goes exactly how and to explain that, if I use your current account and let us assume you do not go into overdraft at the end of the month and that you have always got funds in your account. If you paid out a cheque on the second of the month for R500, would you know it came in from your salary cheque this month or last month? And I think that is one of the problems that the authorised dealers have to actually specifically identify which funds they are transferring. So there are cases when authorised dealers do not send through MT100 .. (inaudible)

Is there anything you would like to add in relation to your remarks concerning the export proceedings CFC accounts? --- No.

From paragraph 78 to 83 you deal with the question of double accounting. Is there anything you would like to add to that? Just apply your mind to paragraph 80, did the banks identify this as a specific problem? --- Yes, it was identified from the questionnaire that we sent to the banks, the banks identified this as a problem. I think their problems can arise where they have agreed a facility previously when certain assets may be worth not incumbered and they now are incumbered and they are not aware of this when the funds is released to another bank.

At the bottom of page 15 you deal with shorting(?) of rand, is there anything you would like to add to what is contained in paragraphs 84 to 88? --- No.

You have made amendments clarifying your position in relation to staff competence? --- Yes.

Is there anything you would like to add in relation to transfer prices? --- I just want to add something on the staff competence.

Yes. --- I added into the paragraph, it is all four parties and I am very aware that turnover is definitely a problem, staff turnover .. (indistinct) and auditors. However, the Reserve Bank are adamant that turnover of staff is not an issue with them.

Is there anything you would like to add on transfer prices? --- No.

Import and export undertakings on page 17 from paragraphs 96 to 98? --- Other than it needs a total overhaul by the Institute of Chartered Accountants, the practicalities of implementing it are quite difficult at the moment.

Can you speak a little louder, Mrs Beck. Would you like to add anything in relation to the submission of application, page 19? --- No.

CHAIRPERSON: Can we go back to 18, I am sorry, I am just reading this. --- Yes.

97.6 where you talk about exchange control regulations, is it literally in the regulations, not in the rulings or circulars? I just want to identify where I can find this, perhaps Exchange Control can tell me. --- Maybe in the rulings.

We will find that out. Thank you, you may continue.

MR NAIDU: Thank you.

CHAIRPERSON: Shall we take the tea adjournment now?

MR NAIDU: Yes.

CHAIRPERSON: Before we close off. We adjourn for 15 minutes.

5 PROCEEDINGS ADJOURN: PROCEEDINGS RESUME:

ALISON BECK (s.u.o.)

CHAIRPERSON: I think we were on page 19.

10 EXAMINATION BY MR NAIDU (cont.): Yes. Mrs Beck, would you go through your report on page 20 with the various sub-headings and indicate if there is any of the matters raised therein that you would like to add, in respect of which you would like to add to what is contained in your report? --- Just something briefly back on page 18, 97.2.

Yes. --- Exchange control informed the external auditors of changes to the exchange control .. (inaudible).

15 CHAIRPERSON: I cannot hear you, I am sorry, say that again. 97.2? --- Yes. Exchange Control informed the external auditors of changes to the exchange control .. (inaudible). There is a bit of a dispute here is that the Institute say they do not receive the information from the Reserve Bank or from the Exchange Control and the Exchange Control are adamant that they did submit it. And we are aware that this is an area of dispute.

Is that an area of dispute? --- Yes.

20 And then just to clarify 97.6, I spoke to Mr Bruce-Brand at the tea adjournment and 97.6 should read "In terms of Exchange Control regulations and rulings", the source is both. Right, let us continue then. --- I have got nothing to add to the submissions, for compliance with approval conditions. And the data and applications I have nothing to add. And then I think for clarity I will re-read the inconsistency of approvals because this is a contentious

25 issue with Exchange Control:

"It is seen by some of the corporates that exchange control, especially with regard to offshore investments, is not applied consistently across all legal entities and transactions. Excon assumes that listed and large companies have better controls, and corporate governments, than privately owned smaller companies. Excon states that it appears to be easier for listed and larger companies than the smaller privately owned companies to gain approval due the company track record with Excon. Approval can be obtained if Excon deem it to be longer term benefits to South Africa. The concept longer term benefits is open to interpretation since it is a subject to the discretion of Exchange Control. However, the corporates are not suggesting any collusion between the listed and large corporates and Exchange Control."

35 MR GANTSHU: Other than reflecting the perception of the corporates did you form an opinion on this, did you conduct any tests on the consistency or otherwise of the approvals. I am interested in your own view? --- In my own view I am aware that companies where they are privately owned, if they are to be bought by a foreign company and there is a request to do a share placement, that the smaller company is not permitted. Or if they get shares in an offshore company that they are required to sell them within 30 days.

40 MR NAIDU: Right, continue? --- The accuracy of the Reserve Bank cross border foreign exchange data, as stated we did find some errors in their data. However, the Reserve Bank is (inaudible) a manual and guidelines to ensure that those errors do not occur again. I think the next item I might make a comment on is on page 23, paragraph 127. The exchange control manual. I still believe that this is the only access that the man in the street has to the implementation of exchange control policy and it serves for both man in the street as a substitute to the rulings that are available to the authorised dealers. I believe the manual is currently up to date, that there has been times previously and it has been commented on by several of the people who responded to our questionnaires, that the manual is not kept up to date. On page 25 under the heading of Fixed Direct Investment, in paragraph 133.3, in my report I state at the end of the approval of an application for shareholders and other loans, Excon often includes the statement saying no capital repayments may be made without prior approval. This is a negative connotation to a foreign investor who wants assurance that the loan will be repaid. I have seen several examples where this statement is included.

55 However, according to Exchange Control this should only be put on loans where there are no fixed terms of repayment. However, I have seen instances where the approval has got this statement in it and they have got fixed terms of repayment. The title on page 28, Abolition of Exchange Control. This is really a heading, a recommendation on the abolition of exchange control. It is not a sub-heading of the draw backs of exchange control.

60 In paragraph 1.2 you want to insert the word the "gradual" abolition? --- Yes.

And delete the word "and". --- Yes.

Is there anything you would like to add to your conclusion on page 29? --- I would like to read the conclusion out because I want to summarise .. (inaudible) .. be done.

Yes. --- In general exchange control works as a method of controlling the in and
5 outflows of foreign currency. However, the effectiveness of exchange control and ..
(inaudible) the willingness and capabilities of Excon, authorised dealers and corporates to
properly administer their responsibilities. The increased costs of administration and the
inability to recruit and obtain quality staff is a problem for authorised dealers and corporates.
10 Due to the gradual relaxation of exchange control, it is possible to circumvent it. The
compliance with exchange control lies on the morality of the South Africans and non-
residents participating in the South African economy to act within the letter of the law. From a
business perspective it is hindrance to efficiency of both foreign investors and businessmen."

Mrs Beck, can you give the Commission some idea about how long KPMG had
15 been working on this report? --- It is quite difficult to say this report because we did the two
reports in conjunction but we basically started 1 February with the initial investigation and the
analysis of data and follow up and report writing and we really only finished today.

So in respect of both reports it is about two and a half months? --- Three months.

And how many people were dedicated to both these, the collection of the data, the
20 analysis, the investigation and the compilation of the report? --- There were six definitely
who were involved on the first report and some of those people worked also on this report
and there were four of us that worked on this report and there were three of us had to be
overlapped.

How much time did you personally spend on the investigation and compilation of the
report? --- I have been fulltime on this assignment since February.

25 Are you able to comment on approximately how many hours totally were involved? -
- I spent probably about 600 hours.

Thank you, Mr Chairman.

CROSS-EXAMINATION BY MR GINSBERG: Mrs Beck, just a brief idea, if I may, of what
30 your methodology was. As I understand it you sent a questionnaire to corporates and
others? --- We sent it to the authorised dealers as well, it was included in the questionnaire
that Deloitte sent out. It went to all the authorised dealers and the corporates.

Are you at liberty to disclose which corporates were on your mailing list? --- The
corporates that we listed in this report.

35 So am I correct in saying that they are the corporates listed in the first part of your
report at page 43 in paragraph 165? --- Yes, that is right.

Are those the corporates then to whom you sent the questionnaire for the purposes
of the second part of your report? --- Yes, they are included on that, the section on
exchange control.

40 Yes, so the conclusions which you reached in so far as corporates are concerned in
the second part of your report are based on the answers given by the corporates mentioned
in 165? --- Not only based on the corporates but also on the external auditors too.

And the authorised dealers, yes. I was just interested in identifying how large a
group of corporates were you talking about and it seems to be roughly about 10? --- Yes.

45 Now the questionnaire then, you received the responses to the questionnaire and no
doubt they were not given under oath, they were simply written answers in the normal way?
--- Yes.

And how did you deal with those answers, what criteria did you use to assess
whether the answer was worthy of putting in your report as either a suggestion or conclusion
or recommendation? --- A lot of the information we received from the corporates, myself and
50 a colleague from Deloitte's, we have had a lot of interaction with the corporates, exchange ..
(inaudible) putting up applications and dealings. So where a corporate made a comment, we
could nearly always support that from our own personal experiences.

And where it did not accord with your own personal experiences, what did you do
with it? --- We included it.

55 And if it was only one comment would you include it or - what I am trying to get at is
what was the threshold here? --- I think it is a combination of the individual corporate and
our knowledge of the market, our experience with dealing with exchange control and I do not
mean just exchange control problems, but exchange control in total.

60 So there was no independent verification of many of the answers that you got? ---
No, there was not.

Now against that background, if I may just take a few issues from your second report, on page 13 is the first where we dealt with the heading whether it is a draw back or weakness is not the issue but what is the issue is the fundamental question that you addressed. Do I understand that whole paragraph to relate to the following situation, that
5 where people act illegally they can circumvent the system? --- That is right.

Because that seems to be what you are saying in paragraph 74. --- That is right.

That an exporter can illegally exceed the 180 days and therefore to that extent you say there are draw backs in the system. --- I think I am also saying that it is not a watertight system and never can be and there are ways of either circumventing it or illegally, or
10 contravening exchange control.

Well I suppose to that extent there is a draw back in the Income Tax if I do not fill in my income tax return correctly? --- That might be so.

So that is the level at which you are criticising the system? --- The system.

And then you dealt with staff competence which we will address ourselves and the
15 next issue, I think, is on page 22 of your report where you talk under the heading of communications by exchange control and then you have a sub-heading of authorised dealers and the point you make there is that the rulings committee does not or does not sufficiently consult with the corporates or with the authorised dealers before rulings are made. --- Yes.

Now can I just ask you, you are not talking about policy here, are you, because that is made by the Minister of Finance or the Department of Finance? You are not suggesting that at that level the Minister should talk to the authorised dealers before making policy decisions? --- Comments come from the questions received back by the authorised dealers and it was not clear whether they were referring to change in the rulings or policy. So it is not
20 clear.

I see, so paragraph 121 could very well be an issue directed at my colleagues from the Ministry of Finance and not to my clients? --- That is right.

In so far as my clients are concerned though, did the corporates or authorised dealers inform you of the meetings that are held between themselves and the South African
30 Reserve Bank on a regular basis? --- They did mention it, they said that they felt that insufficient communication and consultations was given before changes are made.

And then if I may move on to page 23. Now in paragraph 127 you say that the Exchange Control manual is the only access that the public has to exchange control policy?
--- Yes.

Now the question is this, the public has to always act through an authorised dealer before they can buy or sell foreign exchange or deal in the foreign exchange market in any way, is that not correct? --- That is correct.

And therefore any information that the public requires in regard to exchange control will be at the level of the authorised dealer, at least initially? --- It is but I think that often the
40 man in the street or company who may previously have had no foreign exchange dealings but who wants to know should have access to this manual and it should be kept up to date.

Yes. Now as far as the manual is concerned, you are no doubt aware that it exists on the Reserve Bank web site in an electronic form? --- Yes.

And are you also aware that that electronic form is up to date? --- Yes, I did check
45 that but there have been times when it has not been up to date.

But that is not the current position? --- I gather so, you told me last night it is up to date.

Yes. And as far as the rulings are concerned, are you aware that they are sent to authorised dealers, to your Institute of Chartered Accountants of South Africa and to the Law
50 Societies of South Africa? --- I am aware that they definitely, I knew it went to the authorised dealers and to our Institute, yes.

And of course that the public has free access to get any information from their own banks on foreign exchange? --- Yes.

And then if I can get to your conclusions, on page 29 you talk in line 6 under the
55 heading conclusion, you say due to the gradual relaxation of exchange control it is possible to circumvent it. Are you suggesting it. Are you suggesting perhaps that if there was no relaxation it would not be possible to circumvent it? --- I think that the opportunities are greater to circumvent it with gradual relaxation.

Well then give me an example of which relaxation has led to circumvention? --- The
60 ability for individuals to invest offshore, they can use their R750 000 allowance. So what

people do is instead of emigrating and using their individual emigration allowance, they rather use their investment offshore. They are then not classified as having emigrated so they have access still to their current account and to their investments and they are able to come home once a year and use funds that are available, not blocked, as they have not emigrated and so they are able to circumvent exchange control.

How far do you think they will get overseas on R750 000? --- I am not saying they will get very far, I am just saying they are able to circumvent it.

Is that it, is that the circumvention about which you speak? --- There are some others.

Well let us have them because you know it might be asked in a light hearted vein but it is a serious suggestion you are making, so you must back it up. --- And one we suggest that it is able to manipulate the excon ... (inaudible) by putting in incorrect numbers of days that credit will be .. (inaudible) and that has always been there. That is the illegality that we have spoken of earlier. --- Yes.

So whether you make it 180 days or 190 days or 200 days or no days. --- The other alternative is where you take your R750 000 offshore or R1,5 million if it is a family unit. You use that then to buy your assets or your company in South Africa and your company in South Africa is now viewed as foreign aid. And that is the way it is circumventing and abusing exchange control.

Yes, are there any other examples perhaps? --- I think that is enough.

That is enough, and that is all because of the gradual relaxation, that would not have occurred, you say, if there was no relaxation at all? --- I think whenever you have controls, and we saw it with Financial Rand, you attract all the schemes that are going out there in the financial markets internationally.

And if you simply block all residents from taking money overseas they will abide that rule, will they? --- I think you will always find ways of getting around exchange control.

Yes, so it is not really a question of relaxation that is at issue here, it is a question of morality? --- It is a question of morality but I would say that the gradual relaxation also assisted it.

In the limited aspects that you have mentioned? --- Yes.

Thank you.

CHAIRPERSON: Any further questions?

RE-EXAMINATION BY MR NAIDU: Those corporates identified in paragraph 165, what criteria was adopted to identify those particular corporates? --- When we looked at the spot and forward transactions that were concluded from September through to December, we analysed it to see who were the major participants in the market and that is how those were identified.

Thank you, no further questions.

CROSS-EXAMINATION BY MR BEZUIDENHOUT: I just have one question relating to the statement in paragraph 127 about the exchange control manual. You point out that the policy, details of policy of the Reserve Bank or the rules are not publicly available and you say that the exchange control manual serves as a substitute for the rulings available only to the authorised dealers. Could you tell us what is the status of the manual since you point out earlier in your statement that the framework of exchange control comprises the Currency and Exchanges Act, the regulations and the rulings? --- The manual is really a guideline to the man in the street as what the exchange control policy is. It is not binding like rules and regulations, it is a guideline of what approach are being taken by exchange control.

So are the authorised dealers bound to act in terms of the manual? --- No, they are bound to act in accordance with the rules and the regulations.

And the rulings? --- Yes.

Thank you very much.

NO QUESTIONS BY OTHER PARTIES

CHAIRPERSON: Thank you, you are excused.

NO FURTHER QUESTIONS

CHAIRPERSON: The Commission is adjourned until 10:00 on Monday.

PROCEEDINGS ADJOURN: