

## Cross-border crypto asset payments

### Test cases:

Participant	Participant's core business	What was in the sandbox	Testing status
<b>Centbee - Minit Money</b>	Innovating digital payments	Centbee tested the regulatory treatment of crypto assets – specifically Bitcoin (BTC) and Bitcoin Satoshi Vision (BSV) – for low-value cross-border remittances between South Africa and Ghana and vice versa.	Testing was successfully completed during August 2021.
<b>Mercury FX (Mercury)</b>	International payments	Mercury tested the regulatory treatment as well as the associated regulatory reporting implications and obligations, of crypto assets (specifically XRP) being used for effecting low-value cross-border remittances between South Africa and the United Kingdom and vice versa, subject to certain limits prescribed by the relevant authorities. Testing was, in the main, done in terms of the South African Exchange Control Regulations 1961 (Exchange Control Regulations), promulgated in terms of section 9 of the Currency and Exchanges Act 9 of 1933 (Currency and Exchanges Act).	Testing was successfully completed during August 2021.
<b>Xago Technologies (Xago)</b>	Cross-border remittances	Xago tested the regulatory treatment of crypto assets – specifically Ripple (XRP) – in terms of the Exchange Control Regulations, promulgated in terms of section 9 of the Currency and Exchanges Act, used for effecting cross-border transactions between South Africa and the United Kingdom, and vice versa, subject to certain limits prescribed by the relevant authorities, and reporting on such transactions to the relevant authorities.	Testing was completed during April 2022.

## Insights gained during RSB

The crypto asset RSB test cases involved different models of crypto asset usage in facilitating cross-border payments and/or remittances<sup>1</sup>. Testing focused on compliance with South Africa's Exchange Control Regulations 1961 (Exchange Control Regulations) as administered by the South African Reserve Bank's (SARB) Financial Surveillance Department (FinSurv), as well as compliance with some of the existing and potential future requirements of the Financial Intelligence Centre Act 38 of 2001 (FIC Act) in consultation with the Financial Intelligence Centre (FIC). Discussions during the RSB testing included:

- consideration of the most appropriate legal treatment of crypto assets in South Africa in terms of various existing and future financial sector laws;
- the potential treatment of service providers under the Authorised Dealers in foreign exchange with limited authority (ADLA) framework, however, it was subsequently decided to draft a separate framework for CASPs;
- exploration of ensuring compliance with the requirements of the FinSurv Reporting System, both under the existing exchange control framework and the envisaged future framework;
- tracing and monitoring crypto asset transactions using crypto transaction analysis software;
- possible compliance with Recommendation 16 of the Financial Action Task Force (FATF) (the 'travel rule' requirement for CASPs);
- considerations around the pooling of incoming and outgoing crypto asset and fiat payment values;
- compliance with the limits and reporting of the utilisation of the single discretionary allowance (SDA) and foreign capital allowance (FCA) by South African resident individuals using crypto assets;

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<sup>1</sup> It was interesting to note that there was a difference in how FinSurv and the participants define remittances. The participants, in general, saw remittances as any outgoing payment, regardless of value, whereas FinSurv views remittances specifically as a relatively low-value payment, for example remittances used for expatriate workers sending money earned in South Africa abroad to support family in the home country are deemed remittances when under R 5,000 per transaction per day within a limit of R 25,000 per applicant per calendar month.

- the incompatibility of the existing South African exchange control framework to appropriately cater for crypto assets without amendments being made to the Exchange Control Regulations; and
- the IFWG benefitting from both regulated, and (as yet) unregulated firms' participation in the RSB.

### **Next steps**

Regulators, including the FIC, Financial Sector Conduct Authority (FSCA) and FinSurv, are furthering their work to implement the recommendations made in the Crypto Assets Regulatory Working Group's (CAR WG) position on crypto assets. This includes further engagement with the industry on the implementation of the travel rule and the point at which crypto assets should be deemed as externalisation of value in terms of the Exchange Control Regulations. The RSB has been valuable in creating a better understanding of what such compliance may look like, particularly from an exchange control and anti-money laundering/countering the financing of terrorism (AML/CFT) compliance perspective.

A challenge with testing products which may already be live in the market where an existing and full regulatory framework does not yet apply, is that it may complicate the close-out process, whether it means potentially banning a product/service or developing and publishing the requisite framework. The IFWG appreciates the time and effort that all participants have committed towards enabling testing to contribute towards appropriate policy and regulatory responses, also bearing in mind that the development of such positions and frameworks takes time. It should be noted that the completion of RSB testing does not imply approval by the IFWG, nor any of its members, of either the participants or any of their business models, and that participants must still comply with all existing regulatory frameworks outside of the RSB, where applicable and appropriate.