Association of Global Custodians[1]
Middle East and Africa Focus Committee ("AGC ME&A");
Subject to Supplemental Comments

The Governor
Reserve Bank of Zimbabwe
80 Samora Machel Avenue
Harare
ZIMBABWE

Attn: Dr John Panonetsa Mangudya
William B Manhimanzi

RE: Meeting with the Middle East & Africa Association of Global Custodian and Standard Chartered Bank

Thank you for your time on the 14th September 2018 to meet with you and your team.

During the meeting, we raised the earlier correspondence from 19 May 2018 (**attached**) and confirmed that the foreign investor community remains keenly interested in the planned implementation of Zimbabwe Portfolio Investment Fund (ZPIF) and the commencement of repatriation procedures through the ZPIF.

As discussed at the meeting, local custodians including Stanbic Bank Zimbabwe and Standard Chartered Bank Zimbabwe have been considering the matter of ZPIF implementation together with the Middle East & Africa Committee of the Association of Global Custodians (AGC). This stakeholder engagement was aimed at developing a proposal for the practical implementation of the ZPIF for submission to the Reserve Bank of Zimbabwe (RBZ). This, you will recall, is an objective that we established during the meeting of 14th September 2018. The stakeholder forum has now agreed on a process that we believe is a realistic and efficient way forward.

After extensive stakeholder engagement, it has been agreed that there is no reasonable or practical path to the successful implementation a repatriation process that relies, in any way, on the characterization of repatriation as either capital, capital appreciation or dividends. Even though custodians and clients have attempted to provide the information in this format since the repatriation return was introduced in 2017, less than 10% of the repatriation request have been provided in this format. Further, where the information has been submitted in this format, neither the custodians nor the clients can give assurances regarding the quality of the data. Some of the challenges associated with such an approach include the following:

1. The absence of a prescribed methodology for characterising cash amounts due to portfolio investors in this manner.
2. The fact that market conventions allow the reinvestment of dividends and interest.
3. The information is difficult to collect retrospectively.
4. The information is maintained at various distinct levels in the investment chain.

In the circumstances and after careful deliberation on the capacity of custodians to administer the process, we propose that the ZPIF repatriation process should be based on the principle of First In First Out (FIFO).

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[1] The Association of Global Custodians is an informal group of 12 financial institutions that provide securities safekeeping services and asset-servicing functions to primarily institutional cross-border investors worldwide. As a non-partisan advocacy organization, the Association represents members' common interests on regulatory and market structure matters through comment letters, white papers and interaction with legislative and regulatory authorities and financial industry organizations around the globe. The members of the Association of Global Custodians are: BNP Paribas; BNY Mellon; Brown Brothers Harriman & Co; Citibank, N.A.; Deutsche Bank; HSBC Securities Services; JP Morgan; Northern Trust; RBC Investor & Treasury Services; Skandinaviska Enskilda Banken; Standard Chartered Bank; and State Street Bank and Trust Company. For more information visit www.theagc.com.

The prioritization being determined with reference to the date of the client's repatriation instruction to the custodian. This position is strongly supported by both local custodians and foreign investors. The data required to support the process is readily available. In addition, there are sufficient operational systems and controls to ensure that the repatriation instruction dates and repatriation amount data that are provided by custodians to the RBZ are capable of independent validation.

The FIFO approach is consistent with proposal that we have put forward in previous correspondence and also with views expressed by various members of AGC in their engagements with RBZ on this matter over the last year. In essence, the principle governing the framework for the distribution is based on the confirmation that a process of 'first in, first out' would be acceptable to the RBZ and that funds would be placed into the ZPIF March/April 2019.

We believe that the FIFO will be effective in progressively reducing the repatriation obligations and the ever-growing repatriation queue in addition to restoring confidence in the foreign investor community and the wider global supra-national organizations that are assessing Zimbabwe and its debt management position.

Finally, we note the correspondence from the local Custodian Association of Zimbabwe (attached) and the concerns therein raised concerning the new Nostro account structure. We believe that the resolutions and clarifications requested in this submission to you can be addressed in parallel to the implementation of the ZPIF and will not adversely impact any plans that exist to commence ZPIF distributions in March/April 2019 as previously indicated.

Thank you for your attention to this matter; we look forward to hearing from you. If you have any questions or would like additional information, please contact the undersigned.

Yours sincerely,

Julia Kenny

Prepared by the Middle East and Africa Committee,

Julia McKenny, Chairperson.
12 February 2019

Attached:
Letter from the Local Custodian Association dated November 2018
Letter from the Middle East and Africa AGC dated 19 May 2018

Custodian Association of Zimbabwe, 3rd Floor, Stanbic Centre, 59 Samora Machel, Harare
0242-78623300

The Director
Exchange Control Division
Reserve Bank of Zimbabwe
80 Samora Machel
Harare

ATT Mr Farai Masendu

REF: ACCOUNT CLASSIFICATION AND PAYMENT OF REPARTRIATION

In line with the Monetary Policy Statement wherein banks were directed to separate account balances into Nostro FCAs and RTGS FCAs by 15 October 2018. We also make reference to the September 2017 Monetary Policy Statement wherein the Reserve Bank of Zimbabwe directed banks to open Nostro Accounts for the various clients who are in receipt of export proceeds, free funds and offshore loan proceeds.

Our Investor Services clients are in a very unique situation where they would have funded their original purchases with foreign currency sent through normal banking channels. When such clients dispose their securities on the local capital markets, they receive local currency. This makes it complex for the account holding banks to classify these clients' funds in accordance with the 15 October directives on Nostro FCAs and RTGS FCAs. These clients' accounts represent a direct obligation by country to settle their obligation in foreign currency. It is critical for the country's foreign currency obligation to such clients to be accurately reflected as such on the balance of payment statistics.

Stock markets the world over have been recognized to be leading indicators during economic recoveries. As such when positive macro-economic and monetary policies are implemented as happening in Zimbabwe, the stock market is likely to recover and see a net inflow of investments by foreign portfolio investors. When the country adopted the use of multiple-currencies in February 2009, the Zimbabwe Stock Exchange attracted huge inflows inflows of foreign currencies which contributed substantially to the current account. There is currently an amount of USD XXXXX for which local custodian banks have received repatriation instructions. These instructions have not been executed for more than 18 months. We believe that a sustainable solution to the repatriation constraints will improve the prospects for growth in portfolio investment and foreign direct investment. Sentiment from these investors is also useful support for the "Open for Business" initiatives being implemented across the economy.

In view of the above, we respectfully request direction and clarification on the following matters:

1. Recognition of the unique status of cash accounts used for the purposes of custody transactions. We hold the view these accounts make up a special category that requires targeted attention and modified application of the general rules.
2. Cash balances held by portfolio investors are the result of initial investments in foreign currency and in most cases have been held pending repatriation for protracted periods. Will these balances be held in the Nostro FCA or the RTGS FCA
3. In line with efforts to re-engage with foreign investors, we are kindly seeking an update on the implementation status of the Zimbabwe Portfolio Investment Fund(ZPIF). In particular we request publication of draft operational rules and directives of the ZPIF including the relevant repatriation modalities.
4. Removal of Quilter and Nedbank shares from the Corpserve Super nominee to clients' preferred custodians.

We look forward to your response and guidance on the above matters.

Your Faithfully

Takunda Magumise
Secretary
Custodian Association of Zimbabwe

Wilson Karombo
Chairperson
Custodian Association of Zimbabwe.

Association of Global Custodians[1]
Middle East and Africa Focus Committee ("AGC ME&A");
Subject to Supplemental Comments

The Governor
Reserve Bank of Zimbabwe
80 Samora Machel Avenue
Harare

Att: Dr John Panonentsa Mangudya

RE: Repatriation of Foreign Investment Proceeds.

Introduction

AGC ME&A was established within the Association of Global Custodians to address regional challenges in ways that support the investment needs of the global cross-border investor community.

AGC ME&A is intended to serve as a regional industry body that will interact with regional regulators, policy makers and national supervisors through commentary and advocacy regarding recommended asset safekeeping-custody services and "sound practices" in related aspects of the global financial industry.

The AGC ME&A offers banking and securities services products to clients who originate from several jurisdictions across the globe. In Zimbabwe, AGC ME&A members utilize the services of either Stanbic Bank and Standard Chartered Bank to hold clients' investments in the market.

Liquidity Challenges

The AGC ME&A have previously considered the liquidity issues and have raised these with the Securities and Exchange Commission. Please see the correspondence from 30 April 2017. We have also discussed such concerns with the Reserve Bank of Zimbabwe most recently on12 May 2018.

Due to the liquidity challenges currently prevailing in Zimbabwe, some of our clients have not been able to repatriate proceeds received from the sale of securities listed on the Zimbabwe Stock Exchange and dividends from investments held on the Zimbabwe Stock Exchange. To help resolve this challenge, the Reserve Bank of Zimbabwe announced the creation of the Zimbabwe Investment Portfolio Fund in the 2017 Mid-term Monetary Policy Statement released on August 2, 2017.

In its Monetary Policy Statement of February 2018, the Reserve Bank of Zimbabwe advised that repatriations would be processed giving priority to capital before capital appreciation (profits), then dividends. Additionally, the repatriation returns are to be submitted in a prescribed format that requires outstanding repatriation amounts being specified into capital, capital gains and dividends This prioritization set *de facto* an obligation for investors and their custodians to report the portions of outstanding balances

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pertaining to each category, placing a huge administrative burden on all involved parties, from investors to the Reserve Bank of Zimbabwe. To remain accurate, the reports submitted to the Reserve Bank of Zimbabwe would need to be refreshed when investors' balances pending repatriation change pursuant to trading or dividend payments, further aggravating the administrative burden.

Further, it is difficult to accurately separate the repatriation amounts into the constituent elements of capital, capital appreciation and dividends for the following reasons:

1. Reporting this level of information requires ongoing tracking of the capital amount from investment date. This information has not been tracked.
2. The information requirements may be held at various levels in the custody chain, in multiple jurisdictions and in more than one currency. The collation of the required data points for historical transactions from several service providers that use disparate systems is complex and inefficient.

In view of the above, we are kindly proposing that, in respect of repatriation amounts already outstanding, you consider withdrawing the requirement that repatriation amounts be expressed as capital, capital appreciation and dividends. We propose further that you rely only on the age of the payment requests for any prioritization of funds from the Zimbabwe Portfolio Investment Fund. We have seen this work in other countries which experienced challenges similar to the ones currently being faced by Zimbabwe. The 'First In First Out' payment methodology is not only recognized as the most fair and transparent methodology of allocating scarce foreign currency but is broadly accepted by foreign investors.

We would also welcome clarification on the extent and operation of the fund in terms of the funding. We have noted both a USD5 million seeding fund and a possible additional allocation pursuant to the Monetary Policy recently announced, yet we remain unsure of the total amount to be allocated to the repatriation disbursement process. For instance, it would be helpful to understand if the entire amounts are allocated or whether the monies will be utilized differently and only a portion will be distributed.

We believe the above proposals and the clarifications sort herein are in line with the mantra '*Zimbabwe is Open for Business*' and will contribute towards building more confidence in Zimbabwe as an investment destination.

Thank you for your attention to this matter; we look forward to hearing from you. If you have any questions or would like additional information, please contact the undersigned.

Yours sincerely,

Prepared by the Middle East and Africa Committee,

Julia McKenny, Chairperson.
24 May 2018