

DENOVO

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DEBT TO EQUITY CONVERSION

Converting debt to equity is a common occurrence in the business sector and entails the conversion of an existing loan to equity. Such conversion increases solvency and liquidity position of a company and improves the potential to raise further funding should it be required.

Said conversion is often utilised by Multi-National Corporations in respect of cross-border transactions (often an inward loan from a non-South African resident entity to a South African resident entity). In such instance it should be considered if the South African Reserve Bank (hereinafter the "SARB") should be notified of the intention to convert a loan into equity.

The SARB's approval must be obtained when a non-resident entity wishes to convert a loan to equity, by way of an application to the SARB. When an initial inward loan is made by a non-resident entity to a resident entity, an authorised agent of the SARB (i.e. a South African commercial bank) applies for approval on behalf of the resident entity.

Said agent has to satisfy itself from an exchange control point of view that the requirements for such a transaction has been met and receives the foreign payment on behalf of the resident entity and converts it into Rand.

The conversion of a loan to equity constitutes a 'change of use' of the funds (loan) and may require additional permission from the SARB. It is important to remain mindful of any possible adverse tax consequences when converting debt to equity and every transaction must be considered separately and on its own merits. The structuring of the transaction is the key factor to successfully convert the debt to equity.

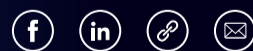
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