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SOUTH AFRICAN RESERVE BANK

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Financial Markets Department

Record of Proceedings of the Financial Markets Liaison Group (FMLG) meeting held via MS Teams on 25 May 2021

Attendance of the FMLG meeting 25 May 2021

Members in attendance	
Fundi Tshazibana, (FMLG Chairperson), SARB	**By Invitation**
Edwin Makgopa, (Secretariat), SARB	
Taalya Phekun, (Secretariat), SARB	Andries Tshishonga, SARB
Zafar Parker, SARB,	Jimmy Matsemela, NT
Samantha Springfield, SARB,	Wanga Cibi, NT
Bafundi Maronoti, SARB	Vukile Davidson, NT
Khethiwe Mavundla, SARB	Shivum Patel, RMB
Nomwelase Skenjana, SARB	Chadd Hunzinger, RMB
Garth Klintworth, ABSA Capital	Nicola Brink, SARB
Parin Gokaldas, ABSA Capital	Ryan Rossam, MMS
Andries du Toit, FirstRand,	
Heath Beckley, FI&DS	**Apologies from members**
Clive Sindelman, Investec	
Lourens van Rensburg, Investec	Tim Masela, SARB
George Kerby, Nedbank	Tshepiso Moahloli, NT
James Glover, Nedbank	Douglas Hendry, Standard Bank
Theo Thomas, RMB	Guido Haller, Standard Bank
Richard de Roos, SAFXC	Mark Stadler, IBA
Nico du Venage, IBA	
Paul Burgoyne, Standard Bank	

1. **Overview**

1.1. The Financial Markets Liaison Group (FMLG) meeting discussed the following key issues:

1.1.1. A proposal on SAFEX/Jibar derivative instrument;

1.1.2. Findings and recommendations on liquidity challenges in the foreign exchange (FX) forward market; and

1.1.3. Progress reports from the FMLG's task team, sub-committees and the South African Foreign Exchange Committee (SAFXC).

2. **Summary of discussions**

2.1. **A presentation on the proposal for a SAFEX/Jibar derivative instrument**

2.1.1. The Fixed Income and Derivatives Subcommittee (FI&DS) tabled a proposal for a derivative instrument that would reference the SAFEX overnight rate in the South African financial markets. The need for such a derivative product was motivated by the collateral agreements that were required to be in place when large institutions trade with each other, as well as for margining agreements when derivatives clear through the London Clearing House (LCH).

2.1.2. The FMLG was of the view that the proposed instrument would improve the management of derivative exposure in South Africa. However, the FMLG agreed that this instrument should be considered alongside South Africa's reference rate reform project and timelines for completion.

2.2. **Findings and recommendations on the liquidity challenges in the FX forward market by the Money Market Subcommittee**

2.2.1. The Money Market Subcommittee (MMS) investigated liquidity challenges in the FX forward market and found amongst others that the high FX implied rates in the forward market were caused by an excess supply of USDs globally and locally, domestic banks' limited USD credit limits and regulatory limits. Adding further supply of USD in the local market were the FX swaps conducted by the SARB for neutralising the liquidity impact of the International Financial Institution's foreign exchange inflows. As such, despite surplus ZAR liquidity in the local market, this was not filtering through sufficiently to the FX market.

2.2.2. The recommendations included the following:

2.2.2.1. Local banks should provide data using a template approved by the FMLG to assist the SARB in identifying potential causes of fragmentation between the domestic money market and FX forward market desks;

2.2.2.2. the SARB should continue to have bilateral discussions with local banks and branches of foreign banks to encourage and facilitate meaningful participation in the FX forward market;

2.2.2.3. The SARB should extend the eligibility criteria for the SARB Repo where banks can place USD collateral with the SARB in exchange for ZAR funding;

2.2.2.4. The SARB should make a standing facility available where banks can place unsecured USD cash with the SARB; and

2.2.2.5. The Capital Leverage ratio requirements on banks should be reduced to enable banks to deploy surplus cash into lower return activities like repos and FX swaps that may gross up balance sheet metrics.

2.2.3. The FMLG accepted the report but was of the view that these recommendations would assist with temporarily reducing pressures, but that an unwind of the FX swaps conducted by the SARB would eliminate the structural bottlenecks within the forward market.

2.3. **Feedback from the Collateral and Clearing Task Team**

2.3.1. The Collateral and Clearing Task Team reported on progress made in developing the secured finance market in South Africa, which was important for ensuring a deep, liquid and well-functioning financial market. This process involved standardisation of legal contracts, regulatory framework, accounting and tax treatment.

2.4. **Feedback from the Money Market Subcommittee (MMS) and Reference Rate Working Group**

2.4.1. The revised Jibar code of conduct had been published during April 2021, while STRATE started publishing post trade disclosures on 24 May 2021 and the SARB a few days later.

2.4.2. The SARB was working on a concept position paper on the SARB's tri-party collateral framework and implementation principles. Once completed, with comments incorporated from MMS members, the paper would be published on the SARB website for comment.

2.5. **Feedback from the Fixed Income and Derivative Subcommittee**

2.5.1. The FI&DS scoped the challenges faced by the corporate bond market. Factors that inhibit liquidity in the corporate bond market were identified and discussed.

2.5.2. It was decided that the FI&DS would focus its initiative on developing the repo market for corporate bonds as part of an initiative to develop South Africa's corporate bond market.

2.6. **Feedback from South Africa's Foreign Exchange Committee**

2.1.1 The Global FX Committee was in the process of reviewing the FX Global Code to support transparency in the global FX market.

2.1.2 The SAFXC, as with other FX Committees in other jurisdictions, continued to lobby the buy-side to embrace the FX Global Code. The outreach programme would be rolled out on the African continent to create awareness of the FX Global Code.

Enquiries:

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