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SOUTH AFRICAN RESERVE BANK

File ref. no.: 11/1/30

Financial Markets Department

Record of Proceedings of the Financial Markets Liaison Group (FMLG) meeting held via MS Teams on 26 October 2021

1. Overview

- 1.1. The Financial Markets Liaison Group (FMLG) meeting discussed the following key issues:
 - 1.1.1. The SARB's proposed monetary policy implementation framework,
 - 1.1.2. Feedback on the reference rate reform project; and
 - 1.1.3. Progress reports from the FMLG's collateral and clearing task team, subcommittees, and the South African Foreign Exchange Committee (SAFXC).

2. Summary of discussions

2.1. The SARB's proposed monetary policy implementation framework

- 2.1.1. In line with continuously reviewing of the Monetary Policy Implementation Framework (MPIF) for effectiveness and relevance, the SARB would publish a consultation paper for comments before the end of 2021.
- 2.1.2. The proposed MPIF would entail a transition from the current shortage system to a system of ample reserves where the SARB would remunerate excess reserves at the repo rate (a floor system). As a safe-guard for uncontrolled growth in the balance sheet, as well as preservation of the interbank market, the proposal would include a tier-floor system which would provide banks a quota of excess reserves that would earn a repo rate. Reserves held in excess of the quota would be remunerated at the standing facility rate which was repo rate less 100 basis points.

2.1.3. Some of the benefits of the proposed MPIF included:

- i. Bank deposits with the SARB would be treated as high-quality liquid assets.
- ii. More effectiveness in keeping short-term rates anchored to the policy rate.

2.1.4. The SARB planned to implement the proposed MPIF mid-2022.

2.2. **Feedback on the reference rate reform project**

2.2.1. The Market Practitioner's Group would be reconfigured as the reference rate reform project had reached the transition phase. The SARB would engage stakeholders to establish work streams to facilitate transition.

2.2.2. The SARB would publish feedback on the technical specification paper which would incorporate key learnings from the back testing exercise, as well as comments received from market participants on the original technical specification paper.

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

2.3.1. The FMLG's collateral and clearing task team was in the process of strengthening a secured market in South Africa. The task team was firstly onboarding interbank participants and South African government bonds to ensure that the system was stable before rolling it out to cover other assets and financial market participants. The process also involved standardising the treatments of matters such as haircuts, tax, legal agreements, and accounting.

2.3.2. The task team would create a virtual central counterparty clearing (CCP) which was envisioned to be set up by the first quarter of 2022. Once completed, the CCP would be classified as systemically important financial institutions.

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

2.4.1. The SARB published a position paper on tri-party collateral management framework for comments and was in the process of developing a business case.

2.4.2. The Money Market Subcommittee planned to start with the project of enhancing liquidity in the secondary market for treasury bills.

2.4.3. The SARB was considering amending the methodology for offering supplementary repos, where it would start offering supplementary repos for both expected and unexpected changes in liquidity factors.

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

2.5.1. The Fixed Income and Derivatives Subcommittee (FI&DS) was working on improving liquidity and price discovery in South Africa's corporate bond market. The impediments faced by this market have been scoped. The process of enhancing liquidity and price discovery would involve developing a repo market for South African corporate bonds.

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

2.6.1. The Global Foreign Exchange Committee (GFXC) has completed its three-year review of principles related to execution, pre-hedging, last-look, algorithm trading and transaction cost analysis and settlement.

2.6.2. The GFXC would focus on the outreach programme to the buy-side in order to get the buy-side to endorse the Global FX code.

Enquiries:

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Secretariat of the FMLG

Attendance of the FMLG meeting 26 October 2021

Members in attendance	
Fundi Tshazibana, (FMLG Chairperson), SARB	<u>By Invitation</u>
Edwin Makgopa, (Secretariat), SARB	Bafundi Maronoti, SARB
Khethiwe Mavundla, (Secretariat), SARB	David Fowkes, SARB
Zafar Parker, SARB	Henk JansevanVuuren, SARB
Samantha Springfield, SARB	Nicola Brink, SARB
Nomwelase Skenjana, SARB	Farzana Khan, STRATE
Garth Klintworth, ABSA Capital	Neha Patel-Manga, SARB
Parin Gokaldas, ABSA Capital	
Andries du Toit, FirstRand	<u>Apologies from members</u>
Heath Beckley, FI&DS	Douglas Hendry, Standard Bank
Clive Sindelman, Investec	Guido Haller, Standard Bank
Lourens van Rensburg, Investec	Mark Stadler, IBA
George Kerby, Nedbank	
James Glover, Nedbank	
Duncan Pieterse, NT	
Theo Thomas, RMB	
Richard de Roos, SAFXC	
Nico du Venage, IBA	
Paul Burgoyne, Standard Bank	