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SOUTH AFRICAN RESERVE BANK

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Financial Markets Department

**Minutes of the meeting of the Market Practitioners Group on Interest Rate
 Benchmark Reforms held via MS Teams on Thursday 14 April 2022 at 09:00**

Minutes No. 02/2021

Present:

R Cassim	Chairperson – Deputy Governor of the SARB
G Haylett	Banking Association of South Africa
J Mol	Association of Corporate Treasurers of Southern Africa (ACTSA)
A Ludin	Financial Sector Conduct Authority (FSCA)
Z Parker	SARB – Chair: Communications Workstream
P Burgoyne	Chair – Transition Workstream
R Roux	Chair – Data Collection and Infrastructure Workstream
G Raine	Association for Savings and Investment South Africa (ASISA)
K Engel	Chair – Tax and Accounting Workstream
C Van de Walt	Chair – Legal workstream
P Gokaldas	Chair – Derivatives workstream

In attendance:

Z Gininda	SARB Financial Markets Department
B Maronoti	SARB Financial Markets Department
S Springfield	SARB Financial Markets Department
P Mananga	Prudential Authority
M Phungo	SARB Financial Markets Department
P Makhanya	SARB – DG Cassim's Office

By Invitation:

F Tshazibana	Deputy Governor of the SARB
N Patel-Manga	SARB – DG Tshazibana's Office
N Hoosenmia	SARB Financial Markets Department

1. **Welcome**

1.1 The Chairperson welcomed members to the second meeting of the Market Practitioners Group on Interest Rate Benchmark Reforms (MPG or Committee) in 2022.

1.2 There being a quorum present, the meeting was duly constituted.

2. **Adoption of the agenda**

2.1 The agenda was adopted as proposed, with no amendments.

3. **Confirmation of the Anti-Competitive Statement**

3.1 The Anti-Competitive Statement was noted and accepted by all members and attendees present.

4. **Approval of Minutes No. 1/2022 of the meeting held on 2 February 2022**

4.1 The minutes of the meeting held on 2 February 2022 were accepted as a true reflection of the deliberations and were approved for signature by the Chairperson.

4.2 The signed minutes would be published on the MPG page on the SARB website.

5. **Matters arising**

5.1 **Update on the Promulgation of the Financial Sector Conduct Authority Regulatory Framework**

5.1.1 It was recorded that the Financial Conduct Sector Authority (FSCA) published the draft Conduct Standards on 28 February 2022, and the period allocated for public comments ended on 12 April 2022. The FSCA had begun the process of consolidating the responses and would advise the next steps in due course.

6. Jibar-related exposures survey

6.1 Mr Hoosenmia presented the preliminary results of the Jibar-related exposures survey, which was administered over the period between 15 December 2021 and 15 February 2022. The purpose of the survey was to determine the volume and maturity profile of financial contracts or positions that referenced Jibar. The population of valid responses received included 70 distinct entities, comprised of commercial banks, insurers and asset managers. Key findings indicated that approximately 99% of the total outstanding exposure referenced the 3-month Jibar. The largest portion of the outstanding exposure was related to derivatives, which accounted for 86% of the total exposure (i.e., R23.4 trillion).

6.2 It was noted that future surveys would need to include the participation of international firms. Local branches of international banks would be requested to provide the aggregate exposure that would be reportable by their head offices. Furthermore, MPG workstreams would be assessing their information needs, which may require additional items to be included in the next iteration of the survey. The frequency of the survey would need to be increased to allow the MPG timely insights on the transition efforts.

7. Feedback and updates from the MPG workstreams

7.1 Data Collection and Infrastructure Workstream

7.1.1 Mr Roux provided an update on the development of the technology that would enable the observation of ZARONIA. There were some delays experienced with the implementation of the data collection component due to the readiness of reporting institutions to test the transmission mechanism. Consequently, the expected go-live date of 19 April 2022 for the data ingestion phase was no longer feasible. The SARB had tentatively estimated the revised go-live date to be around mid-May 2022, which meant that the publication of ZARONIA would likely commence in June 2022.

- 7.1.2 It was reported that some of the affected banks had raised a concern with the requirement to report transactions data on a T+1 basis and requested that consideration be given to the possibility of extending the reporting period to T+2. A longer reporting period would assist in minimizing operational risks and establishing a sustainable process for the long-term. However, it was argued that, as ZARONIA is backward-looking overnight rate, the information content contained in rate would most likely decay rapidly during period of stress and central bank announcements. Consequently, the rate would lag policy shocks and the impact of other significant events, which could impede the monitoring of financial conditions and potentially introduce additional volatility as investors speculate on the rate adjustment process. And hence, it may be undesirable to delay the publication of the rate beyond the earliest publication time possible.
- 7.1.3 Furthermore, it was noted that changing the operational process for calculating and publishing ZARONIA to a T+2 basis was tantamount to a change in the design of the rate, which would require the SARB to initiate a consultation process with market participants. It was agreed that the request may need be considered further in the future once the operational process for data collection and the benchmark determination process had been tested.

7.2 Derivatives Workstream

- 7.2.1 Mr Gokaldas highlighted that the Derivatives Work Stream (DWS) held its inaugural meeting on 5 April 2022.
- 7.2.2 The workstream had reviewed the Terms of Reference (TOR) and proposed some additions to the mandate of the workstream. Following the observation of reference rate reforms globally, it was apparent that development of alternative term rates depended on the successful adoption of the successor rate in Overnight Index Swap (OIS) markets. Consequently, the DWS proposed that their mandate includes an explicit requirement to formulate and recommend strategies for deriving term risk-free rates from the underlying derivatives market activity. Furthermore, the DWS recognized the need to coordinate and align its

workplan with the activities of other MPG workstreams. Also, the execution of the workplan would benefit from greater involvement of international banks and interdealer brokers, which would require a slight modification of the workstream's composition.

7.2.3 Mr Gokaldas outlined the workstream's high level workplan and noted the key initiatives that would drive the derivative market's adoption of ZARONIA. These included, *inter alia*: the production of relevant data analytics; the development of derivatives products and market conventions; provision of guidance on fallback language for legal contracts and master agreements; and the coordination, planning and execution of the ZARONIA first initiative.

7.2.4 The DWS had considered the publication process for its minutes and other relevant documentation. It was agreed that the workstream would submit all their work to the MPG, which would review and make decisions on the items that would be published on MPG webpage. This would ensure that the message to the public is consistent and that sensitive issues are managed appropriately. Nonetheless, in light of the need to increase transparency, the MPG would ensure that the deliberations on key issues would be reported in a comprehensive manner to allow the public to appreciate the alternative views that were considered prior to reaching certain conclusions.

7.3 **Risk-free and Term Reference Rates Workstream**

7.3.1 The Chairperson noted that the Risk-free Reference Rates workstream (RFRR) had met to consider its scope of work and high level workplan. The workstream was recently reconstituted to establish the need for a term rate and consider the design aspects for such a rate. It was indicated that the RFRR expected that the market would require a term rate for both certain derivative and cash market segments.

7.4 **Legal Workstream**

7.4.1 Mr Chris van der Walt provided feedback on the Legal Work Stream's (LWS)

inaugural meeting and outlined the activities that were considered as critical to enable the Jibar transition. These activities included: (a) working off global standard template documents that reflected international best practice; (b) publishing guiding principles and documents; (c) adopting general transition language that would compel parties to negotiate in good faith once the successor rate came into effect; and (d) a waterfall approach for various options that was created in some jurisdictions.

7.4.2 The Loan Market Association (LMA) had expressed an interest to participate in the workstream and to assist with the LMA language. To that end, the workstream aimed to invite the LMA and International Swaps and Derivatives Association (ISDA) to participate in the workstream's meetings, and to leverage their experience on the provisions made in standard loan documentation and protocols during the Libor transition.

7.5 **Transition Planning and Co-ordination Workstream**

7.5.1 Mr Burgoyne provided feedback on the transition plan's incremental objectives. The Transition Planning and Co-ordination Workstream (TPC) had updated the qualitative transition survey. It was envisaged that it would be administered through industry task forces in the near future. The workstream had made progress in establishing some of the industry task forces, which would play an essential role with regard to providing timely information and insights that the MPG and relevant workstreams could use to facilitate the Jibar transition across all market segments.

7.6 **Communication Workstream**

7.6.1 Mr Parker provided feedback on the last two industry forums that were successfully held in March 2022 with the members of the Banking Association

South Africa (BASA). The MPG representatives stressed that there would be a transition from Jibar to an overnight rate and that the initial focus would be on driving the rate adoption in the derivative markets. In addition, preparations were

underway to have the SARB present at the Association of Corporate Treasurers of Southern Africa's (ACTSA) conference, which was scheduled to take place on 26 May 2022. The SARB would use this event to further promote the work the MPG.

7.6.2 It was highlighted that an MPG webpage demo had been presented to the Communication Workstream (CWS) members, who offered their critique and suggestions regarding the content and design of the webpage. The expected go-live date had been revised to sometime around mid-April 2022.

7.6.3 Furthermore, the CWS was finalizing its plans to increase awareness about the MPG's agenda and activities. Mr Parker mentioned that the workstream aimed to employ other forms of communication, including newsletters and feature articles in prominent publications. It was also suggested that the workstream could host a conference to explore and engage market participants on the issues of transition.

8. Ratification of the revised MPG Work Stream Terms of Reference

8.1 Ms Phungo reported that the inputs of the DWS and LWS would be incorporated into the *Market Practitioners Group Work Stream Terms of Reference (ToR)* document. The inputs of the Tax and Accounting Workstream would be incorporated once the workstream had the opportunity to consider them. Furthermore, the mandates of the RFRR and the DCI would be revised to reflect their expanded mandate. Once all revisions had been captured, the ToR would be distributed by email to MPG members for ratification. The signed copy of the ToR will be posted on the MPG webpage.

9. Next meeting

9.1 The next MPG meeting was scheduled to take place on Friday, 1 July 2022 at 09:00 AM.

10. Closure

10.1 The Chairperson thanked everyone in attendance for their contributions, and there being no further matters for discussion, the meeting was closed.

DG R Cassim

Date

Chairperson:

Market Practitioners Group on the Interest Rate Benchmark Reforms