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Financial Markets Department

Minutes of the meeting of the Market Practitioners Group on Interest Rate Benchmark Reforms (MPG) held via MS Teams on Friday, 2 December 2022 at 09:00

Minutes No. 05/2022

Present:

R Cassim	Chairperson – Deputy Governor of the SARB
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
A Du Toit	Chair - Risk-free and Term Reference Rates Workstream
G Haylett	Banking Association of South Africa
M Phungo	SARB Financial Markets Department

In attendance:

Z Gininda	SARB Financial Markets Department
S Springfield	SARB Financial Markets Department
N Hoosenmia	SARB Financial Markets Department
P Mananga	SARB Prudential Authority

By invitation:

Z Moloji	SARB Legal Services Department
W Mostert	SARB Prudential Authority
K Makoko	SARB Prudential Authority
A Bhowan	DWS Member

Apologies:

E Hamman	Chair - Governance and Regulatory Issues Workstream
B Maronoti	SARB Financial Markets Department

1. Welcome

1.1 The Chairperson welcomed members to the fifth 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, with a minor amendment to include feedback from the Tax and Accounting Workstream.

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. 4/2022 of the meeting held on 26 September 2022

4.1 The minutes of the meeting held on 26 September 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 Jibar-related quantitative survey

5.1.1 Mr Hoosenmia indicated that the Prudential Authority had agreed to administer future instalments of the survey on a quarterly basis to enable the effective monitoring of the Jibar transition. The next instalment of the survey would be conducted early in 2023.

5.2 **ZARONIA Code of Conduct**

- 5.2.1 Mr Gininda requested MPG members to consider the governance position paper included in the meeting pack and provide feedback to the Secretariate. Once finalised, MPG members would be requested to adopt the document, which would be posted on the MPG webpage.

5.3 **SAFEX Overnight Rate**

- 5.3.1 Ms Ludin reported that the work on the SAFEX Overnight Rate (SAFEX) would be completed in the new year.

Mr Gininda reported that Ms Elmarie was engaging the Johannesburg Stock Exchange (JSE) on the classification of SAFEX as a benchmark in terms of the Financial Sector Conduct Authority (FSCA) draft Benchmark Regulation. She had conducted a preliminary assessment of the matter, which led her to conclude that SAFEX would likely qualify as a benchmark, contrary to the JSE's position that was submitted to the MPG and discussed at the MPG meeting on 14 April 2022. Nonetheless, she had requested the JSE to complete a questionnaire, which should assist in making a final determination on the matter.

Mr Burgoyne highlighted that, notwithstanding the outcome of FSCA's determination, it would be beneficial that the use of SAFEX was discontinued as the market adopts ZARONIA. Mr Gokaldas reiterated the global practice of using the same rate for remunerating margin and discounting derivative positions. The MPG may be required to articulate its recommendations in this regard.

5.4 **Board Notice 90**

- 5.4.1 Ms Raine highlighted that the main challenge with Board Notice 90 was that interest bearing instruments required a fixed rate in advance and this issue needed to be addressed. Ms Ludin indicated that the review of Board Notice 90 was at its initial stage, and hence, it was an opportune time for the FSCA and the MPG to meet and discuss the implications of adopting ZARONIA.

5.4.2 The FSCA had nominated Messrs Naicker and Jones to join the Derivative Workstream (DWS).

6. ZARONIA publication and market observation

6.1 Mr Gininda indicated that the SARB commenced with the daily publication of ZARONIA on 2 November 2022. The published ZARONIA rates tended to be less volatile than the proxy (historical) rates, and the spread between ZARONIA and the SARB policy rate had increased following the public announcement. Reporting institutions would be engaged to gain further insight on the performance of ZARONIA.

6.2 The SARB had experienced some delays with the collection of the 6.5 years of historical transaction data from reporting institutions. Once collected, the data would be used to calculate compounded ZARONIA period averages and indices. Furthermore, the results of the benchmark back-testing exercise would be revised as the underlying data would have been obtained from a larger population of contributors and subjected to robust quality checks.

7. Market conventions for ZARONIA-based derivatives

7.1 Mr Gokaldas presented an update on the activities of the Derivative Workstream (DWS). The workstream had begun to consider the determination of spread adjustments following the adoption of floor system as the new Monetary Policy Implementation Framework (MPIF). There was a concern that the implementation of the MPIF may have resulted in a fundamental shift in the core commercial bank funding markets such that the predictive power of historical data may be diminished. Hence, the DWS would focus on collecting relevant data that could be used to determine the appropriate spread adjustment. In addition, the DWS had been in consultation with the Legal Workstream to ascertain the process for adding ZARONIA in ISDA's definition and the guidance on the inclusion of fallbacks language in financial contracts. Lastly, the DWS had drafted a white paper, which recommended a set of market conventions for ZARONIA-based derivatives. Once finalised, the white would be published as a consultation paper to solicit comments from derivatives market practitioners.

- 7.2 The target audience for the white paper comprised professional derivative practitioners, who are well versed with the technical aspects of derivative products. The document included specifications for overnight index swaps and cross-currency swaps that would guide the essential components of establishing derivative markets, which include building valuation curves, deriving a market outlook for the trajectory of policy rates, and deriving forward looking term rates.
- 7.3 The white paper entailed three types of overnight index swaps, with the first one being a spot starting single period overnight index swap with a tenor that is less than or equal to 12 months, which would facilitate the production of forward-looking term rates. The second swap product included a forward starting single period overnight index swaps that would replace forward rate agreements (FRAs) that referenced 3-month Jibar. The final item covered the Spot-Starting Multi-Period Overnight Indexed Swaps that would create replacement for Interest Rate Swaps (IRS) contracts that referenced 3-month Jibar.
- 7.4 The MPG was requested to approve the publication of the white paper on week of 15 January 2023 to allow for sufficient time to collate the feedback from the market ahead of the planned MPG conference on 9 March 2023.

8. Qualitative survey and the draft Jibar transition plan

- 8.1 Mr Burgoyne presented the preliminary results of the qualitative (transition) survey and a proposed Jibar transition plan for the MPG's consideration.
- 8.2 On the qualitative survey, the Transition Planning and Coordination Workstream (TPCW) received 16 valid responses (9 from banks and 7 from members of the Association of Savings and Investment South Africa) and a consolidated response from Association of Corporate Treasurers of Southern Africa. Key findings indicated that there were information gaps between commercial banks, who were active participants in MPG structures and institutions from other sectors. The MPG needed to address the impact of MPFI changes and develop a forward-looking term rate.

- 8.3 Furthermore, the survey results reiterated key issues that the MPG needed to address. This included constant communication and market education on ZARONIA and its performance relative to Jibar, SARB to publish a position paper on SteFI and addressing the issue on board notice 90 which was highlighted in point 5.4.
- 8.4 On the key considerations for the MPG, it was pointed out voluntary transition needed to be accompanied with a formal letter addressed to the CEO, a list of non-IOSCO compliant rates need to be made available and mechanisms for obtaining vendor support and engagement should be defined and implemented post ZARONIA endorsement.
- 8.5 Finally, the proposed updated transition plan included: the inclusion of defining tough legacy, proposal of ZARONIA first commencement date, potential earlier cessation dates for all tenors excluding 3-month Jibar and cessation of Jibar which is envisaged to take place end 2027. It was recommended that the plan should include dates on addressing regulatory issues, the cessation date be shifted to 2023 towards the end of the ZARONIA observation period as the proposed cessation date of 2027 could potentially prolong the voluntary transition away from Jibar, the division of the cessation date based on Jibar tenors could lead to confusion; and that the workstreams could leverage from international experiences which could assist in shifting the cessation date to an earlier date.

9. Tax and Accounting Workstream

- 9.1 Mr Engel provided feedback on Tax and Accounting Workstream activities. In particular, the focus areas were on tax legislative changes, tax interpretation, transfer pricing, International Financial Reporting Standards (IFRS) and banking section 24 JB.
- 9.2 The workstream is reviewing potential implication on tax legislation changes, engaging with South African Revenue Service (SARS) on its interpretation notes for reference to Jibar and determine if it will simply be a matter of changing its interpretation notes from Jibar to ZARONIA. Furthermore, it has been noted that a separate interpretation note may be required to clarify whether the transition away

from Jibar would trigger a disposal event for which revenue or capital gain/loss would need to be accounted for.

- 9.3 It was recommended that the workstream engage accounting authorities and follow global practices for guidance.

10. MPG Conference

- 10.1 Mr Gininda provided an update on the annual MPG conference which would likely take place on 9 March 2023. The conference would provide a platform to launch ZARONIA and reduce some of the information gaps that had been identified. The agenda would entail a keynote address by the Chairperson, followed by a panel discussion with selected MPG members. The recent publications of the MPG and its workstream would form the content that would be discussed at the conference. As such, the topics would include, among others, the constitution of ZARONIA and its performance, the MPG's Jibar transition plan, market conventions for ZARONIA-based derivatives, and the general guidance on fallback language.

- 10.2 Furthermore, it was envisaged that there would be breakaway sessions to allow for an in-depth discussion on certain elements of the foundation phase activities. Derivatives market practitioners would be provided an opportunity to expand on the content of the white paper, and to discuss transition strategies and risk management issues. Cash market practitioners would breakaway to consider the use of ZARONIA period averages, an approach to designing market conventions for the loan and bond markets, and the broader implications of the transition to ZARONIA. The legal fraternity could also breakaway to discuss legal implications and envisaged challenges. As the breakaway sessions would likely attract a smaller number of certain individuals, the rest of the attendees would remain in the main plenary, where other elements of the transition plan would be discussed. The affected workstream chairpersons would be required to advise on the format that will be used for their respective breakaway session.

- 10.3 The Communication Workstream was currently finalizing the choice venue and invitations, which would also include MPG workstreams members.

11. General

11.1.1 Ms Phungo noted that the frequency of MPG meetings would increase in 2023 to accommodate all the planned activities that would require the MPG's attention. The meetings would occur on a bi-monthly basis and would be scheduled for two hours per meeting. Members were requested to consider the following dates in 2023 and inform the Secretariat should there be a conflict:

- 3 February
- 21 April
- 2 June
- 4 August
- 6 October
- 1 December

Action: Ms Phungo would finalize the MPG calendar and distribute it to the MPG members.

12. Date of the next meeting – 3 February 2023, 09:00 AM

13. Closure

13.1 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