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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 Monday, 26 September 2022 at
 09:00**

Minutes No. 04/2022

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
E Hamman	Chair - Governance and Regulatory Issues Workstream

In attendance:

Z Gininda	SARB Financial Markets Department
S Springfield	SARB Financial Markets Department
N Hoosenmia	SARB Financial Markets Department
N Fourie	SARB Business Solutions and Technology Department

By invitation:

M Shongwe SARB Legal Services Department
Z Moloji SARB Legal Services Department

Apologies:

G Haylett Banking Association of South Africa
M Phungo SARB Financial Markets Department
B Maronoti SARB Financial Markets Department
P Mananga SARB Prudential Authority

1. Welcome

1.1 The Chairperson welcomed members to the fourth 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. 3/2022 of the meeting held on 1 July 2022

4.1 The minutes of the meeting held on 1 July 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 Gininda provided feedback on latest developments related to the Jibar-quantitative exposures survey. He indicated that the comprehensive set of results from the first instalment of the survey had been circulated to the members. Furthermore, 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 after the Transition Planning and Coordination Workstream (TWS) and the Derivatives Workstream (DWS) had finalised incorporating more granular survey items.

Action: Messrs Hoosenmia and Gininda would liaise with Messrs Burgoyne and Gokaldas, the chairpersons of the TWS and DWS, respectively, to finalise the design of the survey.

5.2 SAFEX Overnight Rate

5.2.1 Ms Elmarie Hamman advised that the FSCA would perform a gap analysis to determine whether the SAFEX Overnight Rate was compliant with the IOSCO Principles of Financial Benchmarks and the draft Benchmark Regulation and Conduct Standard of the FSCA. This would assist the Market Practitioners Group (MPG) in formulating its final position regarding the rate.

5.2.2 Mr Gokaldas pointed out that the rate was typically used as a collateral remuneration rate. It would be inappropriate to continue using it as such after the derivatives market had shifted to ZARONIA-based Overnight Index Swaps (OIS). Ideally, the rate for remunerating collateral and discounting derivatives positions would need to be ZARONIA. Consequently, there may be a requirement to repaper all Credit Support Annex agreements, which currently reflect the SAFEX Overnight Rate. However, this would present a significant

operational challenge.

- 5.2.3 It was widely agreed amongst MPG members that, given how the SAFEX Overnight Rate was determined, it was impractical to classify it as a “benchmark reference rate”.

5.3 **ZARONIA Code of Conduct**

- 5.3.1 Ms Hamman noted that the newly reconstituted Governance and Regulatory Issues Workstream had met to discuss the governance framework and Code of Conduct for ZARONIA. The workstream would review the position paper that was presented to the MPG and update it, where necessary. Once finalized, the position paper would be submitted to the South African Reserve Bank (SARB) as the MPG’s recommendations regarding the control framework for ZARONIA.

Action: Governance and Regulatory Issues Workstream are to submit the final position paper for consideration at the MPG meeting that would be held on 2 December 2022.

5.4 **Qualitative Survey**

- 5.4.1 Mr Burgoyne indicated that the qualitative survey had been distributed to the DWS, ASISA, and ACTSA members. However, the response rate had been rather low for the industry associations. Respondents had requested additional time to complete the survey, which was found to be comprehensive and thought-provoking. The TWS and the SARB agreed that it would be necessary to provide the respondents with an additional two weeks.

- 5.4.2 Mr Gokaldas provided a view on some of the concerns that were raised in the survey responses of the DWS. He indicated that the impact of the new Monetary Policy Implementation Framework (MPIF) on the Jibar transition was yet to be understood. Mr Gokaldas opined that there had been a marked impact on the 3-month Jibar following the transition from the shortage-based system to the new surplus system.

Thus, the past behaviour of ZARONIA versus 3-month Jibar may not necessarily be a true reflection of the future relationship, in light of the MPIF.

- 5.4.3 In addition to the MPIF, Mr Gokaldas raised the point that the credibility of the historical data-set would be an important consideration, as well as any “transfer of value” that may take place when transitioning from IBOR type rates to Alternative Reference Rates.

Action: Mr Burgoyne would share the complete set of results at the next MPG meeting on 2 December 2022.

6. **Market Infrastructure**

Mr Ruan Roux noted that the Data Collection and Infrastructure (DCI) Workstream’s activities had largely been focused on the data collection mechanism to enable the calculation of ZARONIA. The SARB had begun to publish ZARONIA daily on its website in ‘beta mode’. And hence, the DCI workstream would now shift its focus towards market infrastructure, which would entail identifying and engaging key technology vendors and market participants with highly customised systems to prepare their systems and processes for the adoption of ZARONIA. Mr Roux indicated that it could take up to 18 months for market infrastructures to be ready. The DCI workstream aimed to consider approaches adopted in other jurisdictions to ensure a seamless transition by avoiding pitfalls in the upcoming months.

7. **ZARONIA publication and market observation**

- 7.1 Mr Gininda indicated that the information that was displayed on the ZARONIA webpage was inaccurate (at the time of the MPG meeting), and that the SARB would correct it after it had completed all post-implementation issues and all the remaining reporting institutions had been onboarded. He presented calculated ZARONIA rates that were determined using the complete dataset and highlighted that the rate tended to be less volatile and was supported by a large volume of transactions, unlike the rate that was shown on the webpage.

7.2 Furthermore, he noted that the ZARONIA observation period would only commence after the SARB had made a public announcement about the publication of ZARONIA, which would be made after the finalization of the post-implementation issues. The observation period would be twelve months, starting from the date of the announcement. MPG members were largely supportive of the length of the observation period as it would be statistically better than the prior suggestion of six to nine months.

7.3 Mr Gininda highlighted other issues that had been raised to date, such as operational efficiency, volatility of the rate and the need for potential methodology adjustments. A methodology adjustment that was proposed, was to potentially calculate ZARONIA using a central 50% of transactions as opposed to a central 80% of transactions, for a smoother rate profile. The MPG may need to consider if the suggested improvements are significant enough to warrant a methodology change. Feedback was also provided that the historical data collection process was currently underway with the reporting institutions. The institutions are providing 6.5 years of historical transaction data for the SARB to provide a historical ZARONIA data-set.

Mr Gininda further highlighted that formal endorsement of the rate (targeting January 2023) will include Published Reporting Instructions, the ZARONIA Code of Conduct and Revised Terms of Reference for the Reference Rate Oversight Committee (RROC).

Action: SARB to put forward a note on averages and indices related to ZARONIA.

7.4 Mr Gokaldas highlighted that, in addition to an observation period, there should potentially be a separate “spread adjustment” period, that will allow for “teething issues” such as the adoption of new rates and spreads in contracts. This would allow market participants to become confident enough to begin market-making in derivatives referencing ZARONIA. The DWS will need to consider data sufficiency with regards to a potential spread adjustment period.

8. **The Legal Workstream's workplan and ISDA feedback**

8.1 Mr Chris van der Walt provided a presentation covering the latest feedback from the Legal Workstream (LWS), this included a strategy and work plan for the LWS in the months ahead. Mr van der Walt advised that ISDA and the Loan Market Association (LMA) had been invited as members of the LWS.

The first work plan action item included the production of an Information Pack that would summarize protocols and fall-back language. The second item included a plan to “map-out the landscape of legal documentation” by identifying the various financial products that make use of JIBAR. The third item proposed a review of standard South African legal templates. This review would include highlighting principal issues identified under various agreements, and deciding on an approach for transition language.

The fourth and fifth work plan action items covered the identification of tough legacy issues (by identifying contracts where there is no reasonable prospect of bilateral amendments), and the amendment of CSA (Credit Support Annexure) agreements, respectively. The final workplan item covered the regulatory implementation date for transition. Some LWS members opined that it will be unlikely that the new rate will be voluntarily adopted by participants, and a transition should potentially be made mandatory.

8.2 Mr van der Walt further provided feedback on inputs received from industry associations ISDA and LMA. The inputs from ISDA included an overview of the process to develop fallbacks, the anticipated time horizon (9-18 months) to implement a fallbacks protocol, and lastly whether a dual rate would need to be considered. The LMA attended the LWS for the first time as observers at the July 2022 meeting, and were requested to provide a presentation to the LWS on lessons learnt in the LIBOR transition in a follow-up LWS session.

- 8.3 The final section of the LWS feedback presentation included a summary of challenges, governance items and dependencies. A challenge highlighted was that meaningful participation in the LWS would need to take place, this could be achieved by increasing LWS membership to include small to medium law firms, non-banking financial institutions and non-financial corporate treasury teams. The governance item included the adoption of the Terms of Reference. In terms of dependencies, the LWS covered three items: firstly they believed that educational initiatives on ZARONIA to LWS members would be useful, secondly a determination needs to be made on value adjustment (spread) when transition takes place and thirdly, whether transition should be voluntary or mandated (as discussed earlier).
- 8.4 Comments were sought from the MPG on the overall strategy and work plan. The Legal Workstream also requested steer from the MPG regarding the prioritisation of deliverables and the possibility of a dual-rate system (i.e. Jibar parallel to ZARONIA). The committee broadly approved the work plan. However, it was noted that further considerations will need to take place by the LWS, who will engage bilaterally with other work streams to address some of the more challenging items
- 8.5 Mr Andries du Toit concurred that a dual rate may be appropriate given the timelines to have the new rate published. He further commented that the FSCA were reviewing benchmarks, hence this could have further implications on other rates such as on SAFEX Overnight and the Prime rate. It was discussed that it would not be an easy solution to have a mandatory or forced transition, and the LWS will consider any potential legislative implications by considering what had taken place in global jurisdictions.
- 8.6 Ms Gill Raine highlighted buy side regulations - specifically FSCA Board Notice 90, which covered interest rate products – and queried if there would be implications arising from the adoption of ZARONIA on the classification of these products. Ms Ludin commented that BN90 was currently under review.

8.7 **Action:** SARB Legal Team to communicate with FSCA on the impact of transition on BN90.

9. **Communications strategy and events for 2022/2023**

9.1 Mr Zafar Parker presented on the Communications Workstream's 'Outreach and communications strategy for 2022/23'. The workstream had planned to start a newsletter covering MPG related items, which would be distributed on a quarterly basis to ensure that there was timely communication with market participants in between industry forums.

9.2 Furthermore, there would be an in-person Annual MPG Conference that would take place in March 2023. The last conference was held virtually a couple of years ago. In light of the recent developments, including the publication of ZARONIA, quantitative and qualitative surveys, the tentative transition plan, and the guidance for the derivatives (whitepaper), it was deemed as the appropriate time to engage market participants on substantive issues pertaining to the Jibar transition in person.

9.3 The workstream aimed to intensify efforts for creating educational material that would assist market participant to understand the MPG's initiatives and prepare for the Jibar transition timeously. The workstream would collaborate with the rest of the MPG workstreams to create such material, which would be made available on the MPG webpage. Also, the workstream had identified that partnerships with educational content creators, in particular academics, would be instrumental in achieving this goal.

9.4 MPG members indicated their support for the tabled communication strategy and highlighted that the role of communications was critical to the success of the programme.

10. **Transition of the cash market**

Mr Zakhele Gininda proposed that the Risk-free and Term Reference Rates

Workstream (RTW) be repurposed to include transition issues related to cash markets. The mandate of the workstream was previously expanded to include determining the need for a forward-looking term rate, which would have a marked impact on the cash market. Therefore, it may be appropriate to expand the mandate to include all cash market related issues, which would not be addressed by the DWS and TWS. The RTW would likely need to create two focus sub-groups to focus on the loan market and the bond market as observed internationally. MPG members supported the proposal, which was also accepted by Mr Du Toit, the chairperson of the RTW.

11. General

11.1.1 Mr Parker requested members who nominated representatives to form part of the Communication Work Stream to encourage them to attend workstream sessions and contribute to the initiatives.

11.1.2 Ms Ludin noted that it would be helpful to include an FSCA and/or PA representative in the DWS as there were regulatory initiatives aimed at reforming the derivatives market underway.

Action: Ms Ludin would consider the appropriate persons who would be invited to join the DWS.

12. Date of the next meeting – 2 December 2022, 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