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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 Wednesday, 6 November 2024 at 15:00

Minutes No. 04/2024

Present:

R Cassim	Chairperson
J Mol	Association of Corporate Treasurers of Southern Africa (ACTSA)
R Roux	Workstream Chairperson – Data Collection and Infrastructure
Z Parker	Workstream Chairperson – Communications
A Du Toit	Workstream Chairperson – Risk-free and Term Reference Rates
R Klotnick	Workstream Chairperson – Derivatives
E Hamman	Workstream Chairperson – Governance and Regulatory Issues
P Burgoyne	Workstream Chairperson – Transition Planning and Coordination
K Tulsi	Workstream Chairperson – Accounting and Tax
M Shongwe	Workstream Chairperson – Legal
P Mananga	SARB Prudential Authority
O Makhubela	Financial Sector Conduct Authority (FSCA)
G Haylett	Banking Association of South Africa
G Raine	Association for Savings and Investment South Africa (ASISA)
M Phungo	Secretariat – SARB Financial Markets Department

In attendance:

B Maronoti	SARB Financial Markets Department
Z Gininda	SARB Financial Markets Department
N Hoosenmia	SARB Financial Markets Department
P Mjandana	SARB – DG Cassim's Office

By invitation:

A Bhowan	Derivatives Workstream member
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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 2024.

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. 3/2024 of the meeting held on 6 August 2024**

4.1 The minutes of the meeting held on 6 August 2024 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 webpage on the SARB website.

5. **Matters arising**

5.1 **Safe harbour provisions**

5.1.1 Ms Hamman reported that the FSCA had drafted recommendations for safe harbour provisions in a letter that would be sent to the National Treasury by 7 November 2024. The letter would be co-signed by the FSCA and the SARB. National Treasury was informed about the urgency of the matter.

5.2 **MPG Conference – debrief**

- 5.2.1 Mr Parker reported that the third annual MPG conference, which took place at the Maslow, Sandton, on 21 August 2024, was successfully executed and well attended. The SARB had received positive feedback from attendees.
- 5.2.2 All conference documents and recordings were published on the MPG webpage. Furthermore, the Communications Workstream had planned to create short videos on commonly asked questions, which would make the material more accessible and enhance the workstream's outreach program.

6. **Jibar-related exposures survey results**

- 6.1 Ms Phungo provided feedback on the latest Jibar-related exposures survey, which reflected commercial banks and insurers' Jibar-linked assets, liabilities and derivatives as at 30 June 2024. The total gross exposure had increased to R50 trillion (2024Q2), from R23 trillion (2021Q4).
- 6.2 Derivatives exposure made up the largest portion of the total exposure, i.e., circa 94% of all exposures (=R49.7 trillion). Most derivatives exposure had referenced 3-month Jibar and would mature in less than two years. This suggested that the cessation of Jibar towards the end of 2026 would be feasible. Nonetheless, it would be important to develop solutions to manage tough legacy contracts, particularly retail mortgages and consumer loans as they represented a large number of contracts, many of which would mature after 2026.

7. **Legal workstream update**

- 7.1 Mr Shongwe noted that the Legal Workstream had planned to conduct a survey aimed at assessing the nature, extent and size of tough legacy contracts. The survey would be distributed to financial institutions in November 2024 through the FSCA.
- 7.2 The workstream had successfully held their virtual industry forum on 10 September 2024, with 140 legal professionals in attendance. The recording of the event had been published on the MPG webpage.

- 7.3 Mr Shongwe highlighted the Loan Market Association's (LMA) initiatives regarding the Jibar transition, including the publication of the replacement of screen rate clause and the development of fallback language for bonds. It would be essential for the Legal Workstream and the LMA to consider how the fallback language would address adjustments in coupon dates, which would likely need a regulatory instrument to manage the requirement for consent solicitation. This issue would be tabled at the workstream's upcoming meeting in November 2024.

8. **ZARONIA First initiative for derivatives**

- 8.1 Mr Bhowan presented a revised ZARONIA First Initiative plan, postponing its implementation to April 2025, from February 2025, to accommodate the finalisation of the Jibar fallback rate. ISDA had indicated that the inclusion of the Jibar fallback rate in ISDA fallback protocol could only be published towards the end of 2025Q1.
- 8.2 The revised plan reflected a shift in the sequencing of the ZARONIA First Initiative for nonlinear derivatives to September 2025 to allow the market some time to build liquidity in linear derivatives first, which could then serve as the delta for the nonlinear derivatives. However, the time gap between the sequencing of nonlinear derivatives and cross-currency swaps would be shortened to one month.
- 8.3 Notably, there was some increase in the market activity for ZARONIA-linked derivatives, with participation from banks and offshore market players. The Derivatives Workstream expected the trend to accelerate once the methodology for determining credit adjustment spread was publicly endorsed and Bloomberg began publishing the spread.

9. **Credit adjustment spread**

- 9.1 Mr Burgoyne reported that the draft of the consultation paper on the credit adjustment spread (CAS) was largely complete. The Transition Planning and Coordination Workstream had settled on adopting the ISDA methodology comprising a median of 5-year historical spreads between Jibar and respective ZARONIA compounded in arrears. It was noted that the application of the methodology in the cash market would not be prescriptive.

9.2 Engagements between the SARB, Legal Workstream, Bloomberg and ISDA, were ongoing to establish the necessary contractual requirements for the CAS's publication. Once the consultation period ended, the SARB would conclude its contractual obligation with Bloomberg and confirm the exact methodology that would need to be used in determining the CAS.

9.3 The Jibar transition roadmap had been revised to reflect the changes in the timelines for the ZARONIA First Initiative, which necessitated other milestones, including the development of a forward-looking term rate, to be moved.

10. **Updates from MPG workstreams**

10.1 The white papers on ZARONIA First Initiatives for the cash markets were progressing as planned.

10.2 Regarding infrastructure readiness to support the bond and loan market, Strate Ltd Pty had confirmed that their systems would be ready by the end of 2025Q2, with market-wide testing set to begin in February 2025. Market participants were encouraged to shorten their timelines.

10.3 The white paper on market conventions for nonlinear ZARONIA-based derivatives was submitted to the SARB and would be published as a consultation paper to solicit comments from market practitioners. The complexity of the non-linear derivatives market would likely result in the liquidity build-up being slower, with smaller volumes. Hence, a working group had been formed to address liquidity challenges that may ensue.

10.4 Derivatives market makers requested that Monetary Policy Committee (MPC) dates be provided on a rolling 12-month basis to enable effective pricing and risk management.

11. **General**

Members discussed key risks that could impact the Jibar transition:

Risk	Discussion
Potential delays in finalising safe harbour provisions	Given how long amendments to primary legislation tend to take, it may not be possible to finalise safe harbour provision before the envisaged Jibar cessation towards the end of 2026. Potential delays could create discomfort and uncertainty among market participants, as observed in other jurisdictions. It would be essential to address this risk proactively.
Nonuniform adoption of credit adjustment spreads and fallback mechanisms	The role of credit adjustment spreads in fallback mechanisms versus active transitions presents a challenge. Counterparties may resist adopting these spreads during active transitions, leading to prolonged negotiations. Lessons from the Libor transition suggest that uniform adoption of credit adjustment spreads is unlikely, which would potentially complicate the transition process. Proactive commercial negotiations and strong prudential oversight would be necessary to drive the transition and address these risks. Furthermore, a significant number of bond contracts requiring amendments could extend timelines further.
Legal uncertainty	A lack of legal certainty may lead to delays in market adoption. Ensuring readiness and addressing systemic issues on both the buy and sell sides would be critical to achieving a smooth transition.
Slow ZARONIA adoption offshore market participation	Disparities between local and offshore market adoption of ZARONIA were a concern. Offshore banks, which account for a significant portion of South Africa's trading volumes, have shown limited engagement. Without a formal Jibar cessation announcement, offshore markets may lack the urgency to participate, creating an imbalance where local banks bear excessive risk without sufficient offsets in international markets. This could undermine the success of the transition.

12. **Date of the next meeting – 10 December 2024, 09:00 AM**

13. **Closure**

1.1 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