P O Box 427 Pretoria 0001 South Africa
370 Helen Joseph Street Pretoria 0002
+27 12 313 3911 / 0861 12 7272
www.resbank.co.za

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 (MPG) held via MS Teams on Thursday, 8 February 2024 at 13:30

Minutes No. 01/2024

Present:

R Cassim	Chairperson – Deputy Governor of the SARB
P Mjandana	SARB – DG Cassim's Office
J Mol	Association of Corporate Treasurers of Southern Africa (ACTSA)
G Raine	Association for Savings and Investment South Africa (ASISA)
G Haylett	Banking Association of South Africa
R Roux	SARB: Chair – Data Collection and Infrastructure Workstream
A Du Toit	Chair - Risk-free and Term Reference Rates Workstream
M Shongwe	SARB: Chair – Legal Workstream
P Mananga	SARB Prudential Authority
P Gokaldas	Chair – Derivatives Workstream
M Phungo	SARB Financial Markets Department

In attendance:

Z Gininda	SARB Financial Markets Department
N Hoosenmia	SARB Financial Markets Department

By invitation:

A Bhowan	Derivatives Workstream member
G Boyce	Transition Workstream member
N Makoko	Governance Workstream Member
O Eybers	Governance Workstream Member

Apologies:

B Maronoti	SARB Financial Markets Department
E Hamman	Chair - Governance and Regulatory Issues Workstream
P Burgoyne	Chair – Transition Workstream
Z Parker	SARB: Chair – Communications Workstream

1. **Welcome**

1.1 The Chairperson welcomed members to the first 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 amendment.

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. 5/2023 of the meeting held on 7 December 2023**

4.1 The minutes of the meeting held on 7 December 2023 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. **Implications of the MPIF on credit adjustment spreads**

5.1 Mr Bhowan had analysed the spread between Jibar and ZARONIA to determine whether the change in the SARB's Monetary Policy Implementation Framework (MPIF) to the tiered-floor system had resulted in a structural shift in banks' pricing behaviour. There was a concern that a significant shift would have implications for the methodology that would be used to determine the appropriate credit spread adjustment. A comparison of 3-month Jibar-ZARONIA spreads pre and post the implementation of the tiered-floor system suggested that there was a structural break in the time series, with the spread having narrowed post the change in the

MPIF. Nonetheless, it was noted that further statistical analysis was required for more conclusive evidence.

5.2 Mr Gininda argued that a deviation from the widely used ISDA methodology for credit adjustment spread would require a firm understanding of the composition of the risk premium constituting the Jibar-ZARONIA spread and the evolution of the underlying factors, including credit risk, liquidity risk, funding risk and term premium. Otherwise, it would be difficult to justify any changes to the credit adjustment spread methodology in manner that could be seen as fair. It was noted there might not be a pragmatic way for decomposing the Jibar-ZARONIA spread, and that the MPG would need to consider the trade-off between simplicity and accuracy.

5.3 Furthermore, whilst the main focus of the analysis was on the 3-month tenor due to the extensive use of 3-month Jibar in derivatives contracts, it would be essential to extend the analysis to all the standard tenors where there was more market activity underlying the Jibar rates. The results could be used to estimate the credit adjustment spread for 3 months by interpolating it from observations in the other tenors. Alternatively, the MPG would need to consider the possibility of reducing the period for market data used to determine the adjustment spread. ISDA's methodology required a five-year period, which would include observations from the pre-MPIF change era. Using a sample period of about four years or less would exclude those observations and eliminate the structural break.

5.4 It was highlighted that deviations from the ISDA methodology may create complications for our market. The MPG would need to conduct a study to determine winners and losers. It would be important that the revised methodology was applied across all asset classes. And thus, engagements with other market segments and wider consultations with market participants would be essential to ensure that the chosen methodology yielded a 'fair' estimate of the credit spread adjustment.

6. Regulatory instruments to deal with transition and tough legacy contracts

6.1 Ms Eybers reported that, following the engagements between the Governance and Regulatory Issues Workstream (GRIWS) and Legal Workstream (LWS), the GRIWS had engaged the Financial Sector Conduct Authority's (FSCA) Regulatory Policy division and requested them to facilitate consultations with National Treasury on the inclusion of safe harbour provisions in the Benchmark Regulation. The Regulatory Policy division had advised that the safe harbour provisions may need to be housed in primary legislation instead. It was decided that an independent opinion of a senior legal counsel would be sought to advise the FSCA and the MPG regarding the constitutionality and legality of these provisions.

6.2 Mr Gininda highlighted that, notwithstanding the outcome of the FSCA's determination, it would be helpful for the MPG to understand how the current legal framework would deal with the cessation of a critical benchmark, which was an eventuality. Consequently, the LWS would need to consider the nature, extent, and timing of the legal risk that would arise should Jibar be discontinued and parties had to manage legacy contracts within the current legislative framework, where safe harbours provisions were not stipulated. The LWS would need to consider the risk mitigation measures and provide guidance to the MPG.

6.3 The GRIWS had engaged the Banking Association of South Africa (BASA) in December 2023 regarding prudential regulatory issues and was currently consolidating the feedback received. The workstream had also extended the assessment of regulatory implications for Jibar cessation to the MPG workstreams' chairpersons, with feedback expected by the end of February 2024. Once finalised, responses would be included in the GRIWS' position paper.

7. Market infrastructure readiness

7.1 Mr Roux noted that the London Clearing House (LCH) had confirmed that it would include ZARONIA OIS clearing capability on its SwapClear platform as part of its main release of upgraded product functionality in early 2024Q3. However, the release would be subject to internal and external approvals, including those from supervisory authorities and 'no objections' from the Bank of England.

7.2 It was also highlighted that the Data Collection and Infrastructure Workstream (DCI) would finalise its engagements with price providers and inter-dealer brokers on price commitment to enable the commencement of market trading activity. Nedbank Ltd had commenced with streaming indicative prices via Bloomberg, with the expectation of more contributors joining by the beginning of March 2024.

7.3 Furthermore, on the infrastructure readiness for the cash market, Strate Pty Ltd would be engaged on 22 February 2024 regarding the sequencing of all the activities that would enable the adoption of ZARONIA based products. Timelines would be provided at the next MPG meeting.

8. **Derivative Market update workplan**

8.1 Mr Gokaldas indicated that the DWS had commenced with drafting the white paper on nonlinear market conventions for ZARONIA-based derivatives.

8.2 Following the last update provided on 9 June 2023 regarding the FSCA's need to consult the public on SAFEX overnight rate, which had not been considered in the draft Benchmark Regulation and Conduct Standard, the workstream highlighted that the London Clearing House (LCH) would enable the use of ZARONIA in new contracts and continue using 3-month Jibar for discounting derivatives portfolios. It was articulated that should the MPG require ZARONIA discounting, this would impact transition timelines. Therefore, it was agreed that the workstream would priorities meeting LCH pre-conditions for clearing ZARONIA derivatives and building liquidity.

9. **Jibar transition approach and roadmap**

9.1 The Transition Coordination and Planning Workstream had drafted and circulated an update on the Jibar transition plan document to MPG members. The document included results of the qualitative (transition) survey, the transition plan and a high-level transition path defined by the three pillars, including (1) the ZARONIA adoption in Derivatives Market, (2) ZARONIA adoption in Cash Market, and (3) the transition of legacy positions. MPG members were requested to review the document and provide feedback to the Secretariate. Once finalised, the document would be published as a consultation paper and posted on the MPG webpage.

9.2 As a next step, the Transition Planning and Coordination Workstream would reconvene industry task forces, which would play an essential role with regard to resolving issues that arise in certain areas. The Transition Plan document would be treated as a living document, which would be updated regularly to reflect relevant issues and provide further guidance on the Jibar transition.

9.3 Mr Gininda informed members that the Prudential Authority and FSCA had commenced with designing a supervisory plan, which would be presented to different committees including the MPG. It was highlighted that the first step would be the drafting of Dear CEO letters that would compel market participants to initiate the transition way from Jibar. It was, therefore, critical for the MPG to confirm its support for the proposed transition timeline, which was presented to MPG members in June 2023. Furthermore, following the discussion on the transition document highlighted by Ms Boyce, the SARB would need to formally announce the possible cessation date for Jibar.

10. Date of the next meeting – 2 April 2024, 09:00 AM

11. Closure

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

Signed by:Rashad Cassim
Signed at:2024-07-15 20:23:51 +02:00
Reason:Witnessing Rashad Cassim

Rashad Cassim 15/07/24

DG R Cassim **Date**

Chairperson:

Market Practitioners Group on the Interest Rate Benchmark Reforms