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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 Friday, 14 February 2025 at 09:00

Minutes No. 01/2025

Present:

R Cassim	Chairperson
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
G Haylett	Banking Association of South Africa
G Raine	Association for Savings and Investment South Africa (ASISA)
H Nyoni	Secretariat – SARB Financial Markets Department

In attendance:

Z Gininda	SARB Financial Markets Department
P Mjandana	SARB – DG Cassim's Office

By invitation:

A Bhowan	Derivatives Workstream member
K Robertson	Cash Market Workstream member

Apologies

J Mol	Association of Corporate Treasurers of Southern Africa (ACTSA)
N Hoosenmia	SARB Financial Markets Department

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 2025.

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. 04/2024 of the meeting held on 6 November 2024**

4.1 The minutes of the meeting held on 6 November 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. **Determination and publication of the credit adjustment spread**

5.1 Finalisation of credit adjustment spread recommendation

Market participants had provided minor feedback on the 'Proposal for Jibar transition and fallback credit adjustment spreads for the South African interest rate market' consultation paper, which was published on 28 November 2024. Substantive feedback based on a draft version of the consultation paper had already been received and incorporated into the published consultation paper. The draft version

was widely distributed within the MPG and at the MPG conference. As such, there were no further changes that needed to be considered around the proposed methodology, which had been aligned with the International Swaps and Derivatives Association (ISDA) fallback approach.

Bloomberg had implemented the calculation methodology and shared indicative credit adjustment spreads that were based on published and proxy ZARONIA rates. The sub-working group that had been created to consider the credit adjustment spread methodology would compare Bloomberg's results with its own calculations prior to the final paper on the 'Jibar transition and credit adjustment spread' being published.

5.2 MPG and SARB endorsement of the methodology

Mr Gininda confirmed the next steps, which included a media release to announce the MPG's decision to adopt ISDA's fallback approach, including the methodology for determining credit adjustment spreads. Also, the SARB would send a formal letter to ISDA to confirm its endorsement of the methodology.

5.3 Bloomberg and ISDA protocol update

Mr Shongwe noted that the contractual arrangement for appointing Bloomberg as a service provider (that would calculate and publish indicative credit adjustment spreads and the Jibar fallback rate) was concluded in January 2025. The letter addressed to ISDA, pertaining to the inclusion of the Jibar fallback rate in the ISDA protocol, was ready and would be sent to Deputy Governor Cassim for sign-off.

6. **Safe harbour provisions for tough legacy contracts**

6.1 Ms Hamman had requested the Legal Workstream (LWS) to comment on the letter containing recommendations for safe harbour provisions. LWS members were given time until 19 February 2025 to provide their comments. Consolidated feedback would be provided back to the FSCA by Friday 21 February 2025.

6.2 The Financial Sector Conduct Authority (FSCA) had impressed on the National

Treasury (NT) the urgency of the safe harbour provisions and the need to incorporate them in the Financial Sector Regulation Act. FSCA and SARB representative were scheduled to meet with NT in the third week of February 2025 to discuss this further and consider the proposed draft of the provisions.

- 6.1.1 Mr Parker stressed the need to agree timelines with NT as the establishment of the safe harbour provisions would give the SARB the confidence to announce the Jibar cessation date in December 2025. An undefined timeline may result in some complacency and delays, which may introduce uncertainty and necessitate shifts in the Jibar transition timelines. The Chairperson requested that a risk assessment matrix be included as a standing agenda item to allow the MPG to monitor critical dependencies and risks at every MPG meeting.
- 6.1.3 A request was raised for the FSCA to provide an update on the review of Board Notice 90 (BN90) and the Guidance Note that the FSCA intended to issue. Ms Hamman advised that the FSCA department responsible for the BN90 review are nearing the market consultation phase. The FSCA department had further advised that the BN90 guidelines (i.e. related to the inclusion of money market instruments where the rate is not known in advance) could potentially be actioned closer to the Jibar cessation date as there was a possibility of an exemption period. A concern was raised that any postponement to the release of BN90 guidelines could hinder the transition timeline of the money market funds industry, particularly with regards to new issuances of ZARONIA linked instruments. Ms Hamman would follow up and revert on this concern.

7. ZARONIA transition in the retail market

- 7.1 Mr Du Toit presented the Cash Market Workstream's paper titled 'Recommendations for a ZARONIA transition in the retail market'. The paper examines the implications of transitioning Jibar-linked retail mortgage contracts to ZARONIA and the Prime Rate. Mr Du Toit explained how such a transition would be somewhat complex due to the provisions of the National Credit Act and the Consumer Protection Act, which would make the use of backward-looking term rates a challenge. Furthermore, the large number of Jibar-linked retail mortgage contracts would make it infeasible to renegotiate all the contracts prior to the envisaged

cession of Jibar. Mr Du Toit proposed that the paper be published for consultation with market participants and requested the MPG to provide direction on the consultation process as well as input on how this issue should be handled.

- 7.1.1 Mr Gininda noted that, while the paper would likely be accessible to non-bank financial institutions (NBFIs) and market participants that were involved in the MPG structures, it was unlikely that the affected individuals in the general public would find easy to follow. He proposed a two-phase consultation approach, with the initial phase comprising the Governance and Regulatory Issues Workstream considering the implications for the National Credit Act and Consumer Protection Act and a consultation that would target institutional investors. The second phase would include refining and simplifying the consultation paper to make it accessible to a retail bank client. The final draft should ideally present one recommendation to achieve the requirement for 'treating customers fairly' and to avoid unnecessary complexity.

8. **Workstream updates and issues for the MPG's consideration**

8.1 Development in non-linear derivatives and key focus areas for 2025

8.1.1 Linear derivatives update

Mr Klotnick highlighted the increase in liquidity observed in the linear derivatives market over the past 6 – 12 months. Liquidity was expected once the ZARONIA First initiative commences and the announcement on the fallback spreads had been released. Ongoing communication with the market will be essential.

There were ongoing discussions regarding the conventions for prime- and inflation-linked derivatives. A draft paper on the conventions had been drafted and would form the basis for a white paper on the matter. The paper will articulate these conventions to the market in a simplified manner using existing prime and inflation conventions.

Derivatives market makers had raised concerns about the uncertainty of Monetary Policy Committee (MPC) meeting dates and their impact on pricing. Mr Gininda

noted that the Governors Executive Committee had been notified about the need for a rolling MPC calendar, which would give visibility of MPC meeting dates for a rolling 12-month period. The Governors Executive Committee were apprehensive about the suggestion as they would not have sight over all critical engagements for the upcoming year. Nonetheless, it was suggested that the Derivatives Workstream should prepare a formal submission to the MPC if the publication of the dates on a rolling basis was critical.

8.1.2 Non-linear derivatives update

Mr Klotnick noted some progress on Derivatives Workstream's work on non-linear derivatives:

The white paper on the conventions for ZARONIA-linked non-linear derivatives had been distributed to the market and a few comments were received. The comments would be incorporated into the final draft that would be completed by the end of February 2025.

An ambitious timeline incorporating key milestones for non-linear derivatives had been constructed. It had received the full support of market makers. Banks had agreed to provide screen pricing, which would advance the functioning of non-linear derivatives market as this not the standard practise. The ZARONIA First initiative would incorporate non-linear derivatives in September 2025.

The Derivative Workstream aimed to prioritise engagements with market participants. The workstream would collaborate with the Data Collection and Communications Workstream and the Emerging Markets Traders Association to ensure that offshore market participants kept abreast of progress. LCH SwapClear data and a summarized version of the Jibar-related exposures survey results could be used to provide the market with additional insight into the liquidity build initiative.

Mr Gininda enquired whether the frequency of Jibar-related exposure survey data submissions should be increased to monthly and the results thereof published on the SARB website for improved monitoring and accessibility to the market. Mr Klotnick would engage market participants and revert with a suitable frequency of

submissions.

8.2. Legal document mapping and fallback language for bonds

The Legal Workstream's document mapping survey had been issued to market participants through the FSCA. The survey aimed at assessing the nature, extent and size of tough legacy contracts. Respondents were expected to provide feedback by end of March 2025. Responses would be aggregated and published following the MPG's approval.

The draft fallback language for bonds has been shared with the Legal Workstream for comments, consultation is ongoing.

8.3 Cash Markets Workstream update

8.3.1 Cash Markets sub-working group updates

Mr Du Toit informed members that that work on the forward-looking term rate and curve construction had been paused until sufficient liquidity had built up. A sub-working group comprising market makers had been formed to consider publishing indicative screen prices for cash instruments.

Ms Robertson requested the MPG to provide guidance on the use of credit adjustment spreads in the bond, loan and money markets. The Cash Market Workstream would need to form sub-working groups with the necessary expertise to provide input on credit adjustment spread recommendations for specific cash market segments. This would contribute towards providing specific guidelines and recommendations that address the needs of key market segments.

Mr Burgoyne presented an updated version of the transition timeline that reflected an active transition phase. The publication of credit adjustment spreads would lead to better understanding of the pricing implications for the transition and enable market participants to embark on an active transition. Bringing forward the active transition phase would require the Transition and Planning and Coordination Workstream (TPCW) to produced detailed guidelines on the transition approaches,

addressing issues related to timing, active/passive transition, pricing adjustment, legal considerations and tough legacy contracts for different market segments. Mr Burgoyne would liaise with Ms Robertson and Mr Du Toit to determine the best way to achieve this for cash markets.

8.4 System upgrades for variable coupon rate instruments (Strate's Category III)

Mr Roux provided a brief update on the cash market's readiness to support variable coupon rate issuances. He reported that the project to upgrade Strate and market participants systems to enable the use of ZARONIA in money market category III instruments was on track, even though the readiness percentages of participants was quite low at the last check-in meeting. Strate had set 19 May 2025 as the target date for go-live. While this was later than anticipated, it was essential to allow the market to get the implementation right.

9. **Jibar-related exposures survey**

Mr Gininda reported that the survey responses had not been received early enough to allow the SARB to analyse them ahead of the meeting. The SARB would prepare a report on the survey results and circulate them post the meeting.

10. **Date of the next meeting – 03 April 2025, 13:00**

11. **Closure**

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