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South African Reserve Bank

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Minutes of the meeting of the Market Practitioners Group on Interest Rate Benchmark Reforms held via MS Teams on Friday, 20 June 2025 at 09:00

Minutes No. 03/2025

Present:

R Cassim	Chairperson
R Roux	Workstream Chairperson – Data Collection and Infrastructure
R Klotnick	Workstream Chairperson – Derivatives
A Du Toit	Workstream Chairperson – Risk-free and Term Reference Rates
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)
J Mol	Association of Corporate Treasurers of Southern Africa (ACTSA)
H Nyoni	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

By invitation:

A Bhowan	Derivatives Workstream member
K Dikokwe	Financial Sector Conduct Authority (FSCA)
G Varadarajan	Strate
G Naicker	Strate

Apologies

E Hamman	Workstream Chairperson – Governance and Regulatory Issues
M Phungo	SARB Financial Markets Department

P Mjandana	SARB – Deputy Governor Cassim's Office
Z Parker	Workstream Chairperson – Communications

1. **Welcome**

1.1 The Chairperson welcomed members to the third 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. 2/2025 of the meeting held on 3 April 2025**

4.1 The minutes were accepted as a true reflection of the deliberations and were approved for signature by the Chairperson, with a minor amendment on point 5.3.2.

4.2 The signed minutes would be published on the MPG webpage on the SARB website.

5. **Books closed period for bond floating rate ZARONIA linked securities**

5.1 During market testing of ZARONIA-linked securities in February 2025, an inconsistency was identified in the calculation of accrued interest during the ex-interest period which highlighted the need for an alternative accrual methodology during the Books Closed Period (BCP). The BCP serves as a brief window for issuers to identify bondholders eligible for coupon payments, but due to ZARONIA's delayed publication, the exact interest amount is unknown at the time of trade, leading to pricing inefficiencies, reduced transparency and valuation challenges.

5.2 To address these issues, the Cash Market Workstream Sub-working group (CMWS) undertook a comprehensive analysis of accrual methodologies across both interest periods. As part of this broader review, the potential transition to a zero books close period process was explored as a solution to align market practices and enhance consistency.

5.3 To support the shift to a zero BCP framework, Mr Varadarajan proposed the introduction of an operational freeze mechanism, which would prevent top-ups and reductions in securities holdings from the last lookback rate date, approximately five days before the record date in order to preserve the integrity of interest calculations. He further stressed the need for Issuer Agents to automate the interest confirmation process ahead of the record date, given that the register would be frozen prior to that point. This automation would ensure that interest amounts could be confirmed within a 4.5-day window.

5.4 Mr Du Toit highlighted that there were five conditions that require provision before a formal adoption of a zero books close period process. These included: (i) conducting a market readiness survey with industry participants, (ii) consulting with Central Securities Depository Participants (CSDPs) to ensure market readiness, (iii) consultation with the National Treasury (NT) to ensure process alignment with the operating models of State Owned Entities (SOEs) and (iv) preparation of formal adoption documentation for MPG approval. The feedback from these consultations would determine the adoption of the zero books close period process.

5.5 Mr Varadarajan, together with Mr Naicker, highlighted the anticipated benefits of a zero BCP, including improved accuracy in interest accruals, enhanced reconciliation processes, and overall market efficiency. They recommended that a clear implementation deadline be established to ensure readiness and alignment across market participants.

5.6 Mr Gininda emphasised the need for market-wide consistency in implementing the proposed zero BCP and cautioned against the risk of bifurcation, where some issuers adopt the zero BCP while others retain a five-day period, resulting in inconsistent market practices. The MPG was encouraged to clearly specify whether the zero BCP will be mandatory, potentially through inclusion in bond covenants, or left to issuer discretion. The possibility of allowing a one-day BCP to provide issuers with operational flexibility was also raised. Additionally, it was suggested that Strate publish a consultation document reflecting feedback from the market testing phase, supported by a coordinated communication strategy to ensure alignment across stakeholders, including the NT.

5.7 Ms Raine noted that the Association for Savings and Investment South Africa's (ASISA's) survey of buy-side investors provided key insights into market readiness. Many buy-side participants have adapted LIBOR transition systems designed for a zero BCP and are comfortable with this approach if given clear timelines, despite some manual intervention requirements. The importance of accurate daily valuation for open-ended funds was highlighted, especially where misaligned accrued interest during the ex-interest period cannot be corrected retrospectively. It was also noted that SOEs and the NT issue relatively few floating rate securities compared to banks and corporates, which should be considered in assessing operational changes

5.8 Mr Burgoyne emphasised the importance of early assessment from CSDPs to determine the feasibility of implementing a zero BCP and to proactively address any potential challenges. Delaying implementation until March, the proposed no-new-Jibar date, was cautioned against, as it could unnecessarily constrain bond market activity. As such, early and thorough technical evaluations by Strate and CSDPs are considered essential to confirm the viability of these options.

6. **Proposal for improvement of visibility of MPC meeting dates**

6.1 The limited visibility of Monetary Policy Committee (MPC) meeting dates, typically announced only toward the end of the year, was identified as a key challenge. This lack of forward guidance has been shown to negatively affect liquidity, particularly in the short-dated forward rate market. Enhancing transparency around MPC scheduling would support more accurate pricing, improve risk management and encourage the development of derivative products linked to MPC outcomes.

6.2 South Africa was noted as an outlier among major markets due to its limited visibility of MPC meeting dates. To address this, three potential solutions were proposed: (i) advance publication of MPC dates, (ii) publication of rolling 12-month MPC calendar and (iii) effective date of policy changes set to the first of the following month.

6.3 Members raised concerns regarding option (iii), particularly its potential to disrupt market dynamics. It was noted that delaying the effectiveness of monetary policy changes could influence price formation and flow activity between the MPC decision date and the proposed implementation date. Furthermore, concerns were raised about possible unintended consequences for the cash market and banking book, stemming from the lag between rate announcements and their application.

6.4 It was noted that the scheduling of MPC dates was constrained by international commitments and the need to align with global events. To address these limitations, it was suggested that the Derivatives Workstream (DWS) engage with relevant SARB stakeholders to develop a strong case for the Governors Executive Committee (GEC) to reconsider the MPC calendar, highlighting the importance of supporting market development and enhancing market visibility.

7. Proposed publications by the Legal Workstream

7.1 Mr Shongwe proposed the publication of two documents: (i) Precedent amendment agreement for syndicated loans based on the ZARONIA loan conventions and non-cumulative compounded in arrears methodology and (ii) Benchmark discontinuation riders for the bond market, providing fallback language for bond and note issuances to transition to ZARONIA upon the cessation of Jibar. These documents were aimed at providing standardised language for transitioning from Jibar to ZARONIA.

7.2 Two versions of the benchmark discontinuation riders were drafted. The first one mandated the appointment of an independent advisor, while the other made it optional. Furthermore, clarification was provided that fallback language would not override noteholder consent requirements.

7.3 The MPG endorsed the publications, and the documents would be published on the SARB MPG webpage.

8. **Tax considerations for the Jibar transition**

8.1 Mr Tulsi presented a draft paper on the tax implications of the benchmark reform, which highlighted the importance of maintaining economic equivalence and avoiding significant modifications to contracts. The paper had been circulated to MPG members for review and comments were due by 27 June 2025.

8.2 It was emphasised that the paper did not address institution-specific tax concerns but covered major anticipated tax considerations. Key among these was the importance of limiting contractual amendments strictly to benchmark reform. Changes beyond this scope would be deemed as significant modifications for tax and accounting purposes and may require the derecognition and re-recognition of instruments, which would be a complex process, particularly for large portfolios.

8.3 The MPG was requested to support engagements with the NT and South African Revenue Service (SARS) to issue a general binding guidance to provide clarity to the market. Previous attempts to engage SARS directly were unsuccessful, and assistance in advancing this dialogue was needed to ensure market-wide clarity.

8.4 Members emphasised the importance of establishing a clear tax principle underpinning the transition from Jibar to ZARONIA, namely, that taxpayers should remain in the same tax position before and after the change, with no direct or indirect impact resulting from the reform. This clarity was essential to avoid triggering anti-avoidance provisions.

8.5 It was agreed that the paper should reflect this principle more explicitly and be updated to incorporate recent developments, including the publication of the credit adjustment spread. Furthermore, concerns were raised about how economic equivalence would be assessed in scenarios where term rates, such as Term ZARONIA, were adopted at a later stage - potentially after the credit adjustment spread had been adopted. The need to consider whether a revised spread would be required in such cases was noted, and the matter would be taken back to the Accounting and Tax Workstream for further consideration.

9. **Transition approach and risk register update**

9.1 Mr Burgoyne provided an update on the transition plan, highlighting significant progress in market adoption, legislative amendments and the development of term rates. One addition under consideration was the inclusion of standardised transition language, which would be developed under the Legal Workstream. The aim was to make this language available ahead of the proposed start of active transitioning in January 2026.

9.2 A risk log was introduced to track potential risks and their impact on the transition timeline and to guide cessation date planning. Current risks included slow liquidity build-up, delays in legislative amendments (particularly safe harbour provisions), clearing issues for certain counterparties, and potential unavailability of term rates ahead of the cessation date. Of concern was the risk of a bulk transition during December 2026, which could strain systems and settlement processes.

9.3 It was inquired whether there were key items on the risk log that could potentially impact the choice of a cessation date, and the finalisation of transition guidelines and approaches were noted as the critical elements to monitor to avoid legislative delays.

9.4 The updated transition plan paper had been circulated to MPG members for review, and comments were due by 27 June 2025.

10. **General workstream updates and issues for MPG consideration**

10.1 **Legal Workstream updates:**

10.1.1 The Legal Workstream (LWS) had largely focused on the development of a remediation pathways paper to guide market participants on addressing tough legacy contracts, with plans to share the draft with the Transition Planning and Coordination Workstream (TPCW) and circulate it to the MPG for endorsement before the end of the year. Regarding the document mapping exercise, an analysis of potential tough legacy contracts was ongoing, and a consolidated report would be presented at the next MPG meeting. Furthermore, draft legislation on safe harbour provisions was set to be released for public comment by the NT, with finalization anticipated by the end of June 2025.

10.1.2 As part of its communication efforts, the LWS supported an LMA webinar on the rate switch agreement and the recording had been uploaded onto the MPG webpage. Upcoming communication initiatives included the planned Legal Industry Forum scheduled for September 2025 as well as the publication of a newsletter in August 2025.

10.2 **Data Collection and Infrastructure Workstream updates:**

10.2.1 The main concern raised related to limited engagement with international market makers. While around 60% had committed, efforts were ongoing to secure the remaining 40%. Furthermore, the next area of focus was shifting to understanding the platform set up and mechanism requirements for term reference rate extraction from derivatives executable quotes. This would involve examining the platform setup, quote mechanics, and the rules governing such a process.

10.3 **Derivatives Workstream updates:**

10.3.1 Mr Klotnick provided an update on market activity and progress on his workstream’s deliverables. During the first four months of the year, derivative trading volumes were approximately R3.5 billion, which was considered relatively low for the market. However, following the launch of the ZARONIA First initiative in May, notional turnover increased significantly to R56 billion in that month alone. June volumes also showed substantial growth on a relative basis, demonstrating the positive impact of the initiative.

10.3.2 The workstream had established a dedicated working group to research how other jurisdictions, including the United State, Singapore, United Kingdom, Mexico, and Israel managed their respective derivative transitions. This group developed milestones, timelines, and identified dependencies, which were incorporated into the overall transition planning.

10.3.2 Finally, the importance of a supervisory program to build liquidity and market tension in the lead-up to go-live dates were emphasized as critical to sustaining volume growth.

10.4 **Cash Market Workstream update:**

10.4.1 The Sub-Working group focussed on retail markets was drafting an information pack for retail clients with Jibar-linked contracts. The document would be circulated to MPG members for review and approval.

10.5 **Communications Workstream update:**

10.5.1 It was reported that planning was underway for the MPG Conference for early December 2025.

10.5.2 Engagements on the “No new Jibar” regulatory instrument were ongoing with relevant parties.

10.5.3 It was also noted that the MPG newsletter would be circulated after the publication of the TPCW’s updated transition plan.

11. **Date of the next meeting – 29 August 2025, 10:00 AM**

12. **Closure**

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

05/09/25

DG R Cassim **Date**

Chairperson:

Market Practitioners Group on the Interest Rate Benchmark Reforms