



SOUTH AFRICAN RESERVE BANK

SARB MPG Legal Industry Forum Webinar – Key market updates

10 September 2024



- Industry Progress
- Future milestones for the MPG Cash Market Workstreams
- Future milestones for the MPG Derivatives Workstreams
- Transition timeline and future milestones for the MPG Transition, Coordination and Planning Workstream
- Useful links

Industry Progress



Summary of Conventions

Convention	Derivatives Market	Bond Market	Money Market	Loan Market
Calculation method	Daily overnight compounded	Daily overnight compounded	Daily overnight compounded	Daily overnight compounded
Lookback	0-business day	5-business day	1-business day	5-business day
Observation method	Not applicable	Without observation shift	Without observation shift	Without observation shift
Expression and Rounding of the rate	Simple Act/365 Rounded to 6dp	Simple Act/365 Rounded to 6dp	Simple Act/365 Rounded to 6dp	Simple Act/365 Rounded to 6dp
Margin/spread	Simple added to the compounded rate	Simple added to the compounded rate	Simple added to the compounded rate	Simple added to the compounded rate
Interest rounding	2dp	2dp	2dp	2dp
Settlement lag	2-business day	Not applicable	Not applicable	Not applicable

Aligned



Progress

- Non-linear conventions – in progress.
- Credit Adjustment Spread (CAS) document – due for publication for industry consultation.
- ZARONIA first initiatives
 - Derivatives – due for publication for industry consultation.
 - MPG Cash market workstream has formed sub working groups to discuss this with a range of market participants.
- Retail loans referencing JIBAR
 - A sub working group has been formed to consider the implications of cessation on retail loans referencing JIBAR
 - This group comprises of market participants
- Curves
 - MPG Cash market workstream has formed a sub working group to recommend a methodology. This group comprises of market participants, subject matter experts and independent experts.



Future milestones for the MPG Cash Market Workstreams



MPG Cash Market – milestones

Milestone	Status	Timeline
Bond Market conventions	Complete	Q1 2024 – Published paper, practical guide and detailed Excel model
Money Market conventions	Complete	Q1 2024 – Published paper, practical guide and detailed Excel model
Loan Market conventions	Complete	Q1 2024 – Published paper, practical guide and detailed Excel model
Bond and Money Market industry engagement on readiness	Ongoing	Q3 2024 – Strate published readiness timeline for the Bond and Money Market. Market participants urged to prioritise development. Progress is being monitored.
Loan Market language available	Ongoing	Q3 2024 – Loan Market Association (LMA) published South African law JIBAR rate switch agreement to assist with market transition to ZARONIA (Exposure Draft) Market participants urged to review and provide comments in an effort to finalise and publish the Investment Grade documentation.

MPG Cash Market – future milestones

Milestone	Status	Dependency	Timeline (dates are subject to change based on dependencies)	Legal Workstream Responsibilities
Term Reference Rates	Framework has been written. Awaiting market activity to test.	Derivatives Market Liquidity build	Q2 2025 – Term rate investigations concluded, and recommendations issued.	If Term rates are made available. Legal clauses to be worked on for the markets allowing Term rates.
Valuation and curve construction	Proposal in progress. Awaiting market activity to test.	Derivatives Market Liquidity build	Q4 2024 – proposal to be presented to MPG.	None
First initiatives for the cash market	Sub working groups formed to investigate	Cash market readiness	Q4 2024 – proposals to be presented to MPG.	Ensure legal language and confirmation language is available for new ZARONIA agreements.
Transition of legacy cash market agreements	Ongoing/ Not started	First initiatives for the cash market	Q2 2025 – proposal to be presented to MPG.	Add language to in force agreements.

Bond Market

- Consent solicitation
 - This market is rather complex and requires consent to change terms of the agreement.
 - Fallback language additionally requires consent.
- Language in new and renegotiated agreements
 - Appropriate fallback language should be inserted into new and renegotiated agreements.
 - This can be started now.
- Discussion to be addressed at the MPG Cash Market Workstream
 - Determine how best to facilitate a smooth transition for in force agreements that mature beyond proposed cessation date.
 - Elicit participation from bond market experts, issuers and legal.





Future milestones for the MPG Derivatives Workstreams



MPG Derivatives Workstream milestones

Milestone	Detail	Date
Linear derivative conventions	Published paper and detailed Excel model	Q32023
Linear derivative test trades - round 1	Bilateral test trades: local banks	Q32023
Linear derivative screen pricing	Provision of indicative screen pricing: ZARONIA derivatives	Q12024
Booking platform readiness	Markitwire readiness for ZARONIA derivatives	Q12024
Linear derivative test trades - round 2	Bilateral test trades using MarkitWire: local banks	Q22024
ZARONIA clearing eligibility	LCH eligibility for ZARONIA derivatives	Q32024
Market making working group formation	Creation of a dedicated working group to drive liquidity build	Q32024
Paper: ZARONIA first initiative	Articulating proposed conventions for a ZARONIA first initiatives	Q32024
Paper: Non-linear derivative conventions	Articulating conventions for non-linear derivatives	Q32024



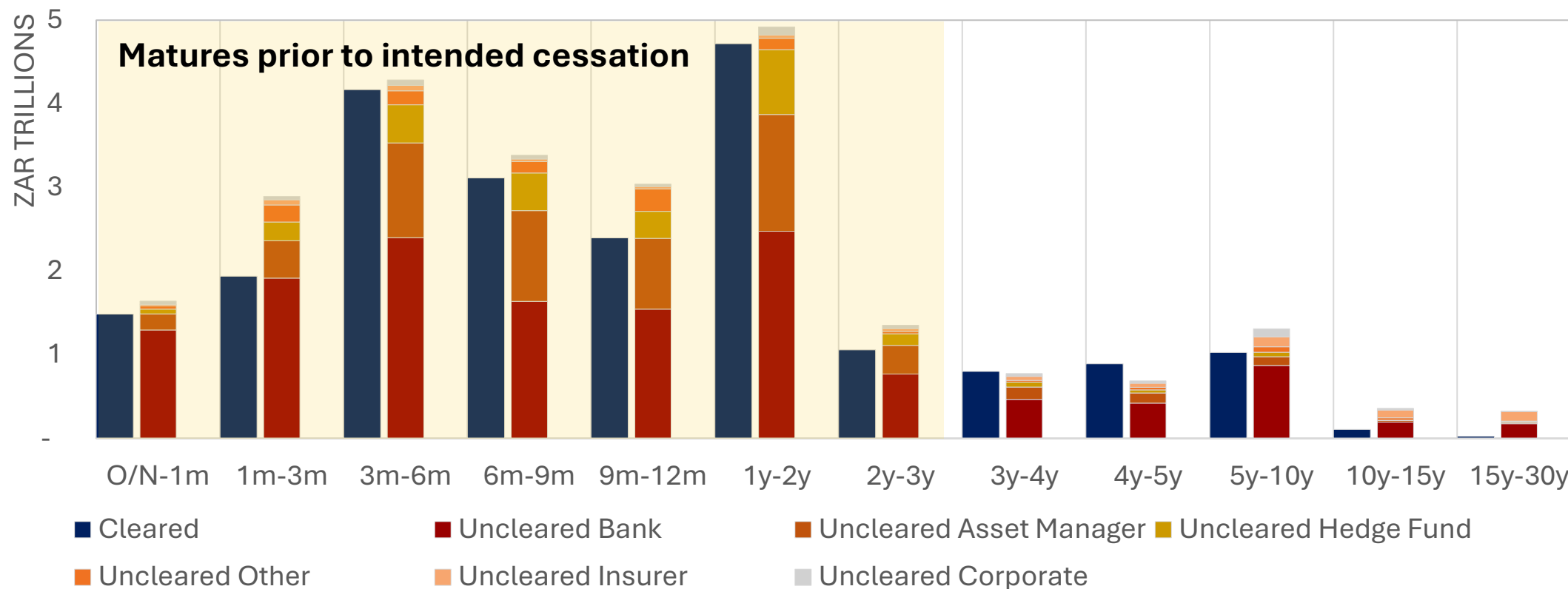
MPG Derivatives Workstream - Future Milestones


Milestone	Detail	Date
Linear derivative test trades - round 3	Bilateral cleared test trades: local banks.	Q32024
Market maker commitment to interbank pricing provision	Market makers to provide pricing interbank in gradually increased notional.	Q32024
Market maker basis swap screen indications	Provision of indicative screen pricing: ZARONIA basis derivatives.	Q32024
ZARONIA first details – likely announcement of details	Likely official announcement of the commencement of a ZARONIA first initiative in 2025.	Q42024
ISDA protocol methodology publication		Q42024
ZARONIA first linear derivatives	Commencement of trading convention switch from JIBAR to ZARONIA in the interbank market.	Q12025
ZARONIA first non-linear derivatives	Commencement of trading convention switch from JIBAR to ZARONIA in the interbank market.	Q32025
ZARONIA first cross currency derivatives	Commencement of trading convention switch from JIBAR to ZARONIA in the interbank market.	Q42025
Likely JIBAR future cessation announcement	Likely announcement of the cessation of JIBAR in Dec 2026.	Q42025
JIBAR cessation	Cessation of JIBAR.	Q42026



SARB survey – Cleared vs Uncleared DEC 2023

Notional	Matures before intended cessation	Matures post intended cessation
Cleared	ZAR 19T	ZAR 3T
Uncleared	ZAR 22T	ZAR 3T

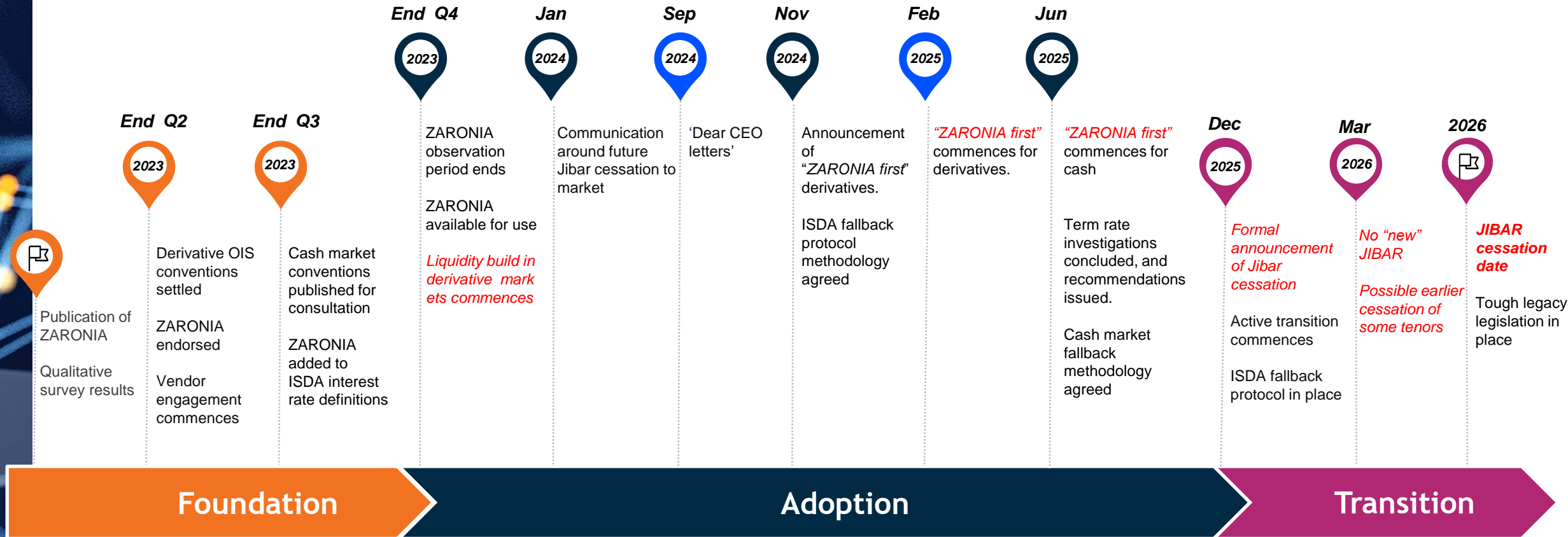




Transition timeline and future milestones for the MPG Transition, Coordination and Planning Workstream



Transition timeline



Notes:

1. Updated the "Dear CEO" Timeline - Sep 2024
2. Updated the Nov Milestone - "Announcement" of First initiative
3. Added Feb to Timeline - ZARONIA first commencement

Credit Adjustment Spread (CAS) – update

Key principles:

- CAS is a tool to aid transition from IBOR to ARR, not designed to provide for full compensation
- Should be a close proxy of economic equivalence of cashflows
- Approach should achieve wide adoption of use of CAS
 - Across different products
 - And in fallback and active transition (including, if possible, the ISDA protocol)

Workstream considerations:

- Some dependencies appearing on CAS availability for market development and ZARONIA adoption
- Quantitative assessment completed using all available ZARONIA data (including historic data compiled by SARB)
 - Compounding the overnight rate has an impact
 - Mean vs median
 - Impact of interest rate cycles considered and whether these should be adjusted for
 - SA idiosyncratic market considerations, impact of monetary policy implementation framework changes
- Market feedback on criticality of the ISDA protocol for adoption and transition
- MPG guidance is that deviations from ISDA protocol should be considered only if material

Process and Timelines

- Working document compiled and being considered by MPG workstreams.
- CAS Proposal document to be developed from the working document for consideration by MPG.
- Looking to finalise for MPG decision on adoption of proposal early October 2024.



Useful links



Useful links

- [Market Practitioners Group \(resbank.co.za\)](https://resbank.co.za)
- [MPG conferences and industry forums \(resbank.co.za\)](https://resbank.co.za)
- [ZARONIA interest rate benchmark \(resbank.co.za\)](https://resbank.co.za)
- [Loan Market Association - the authoritative voice of the EMEA market \(lma.eu.com\)](https://lma.eu.com)
- [International Swaps and Derivatives Association \(isda.org\)](https://isda.org)

Questions





THANK YOU



SOUTH AFRICAN RESERVE BANK