Market Practitioners Group

South African Reserve Bank

Legal Workstream

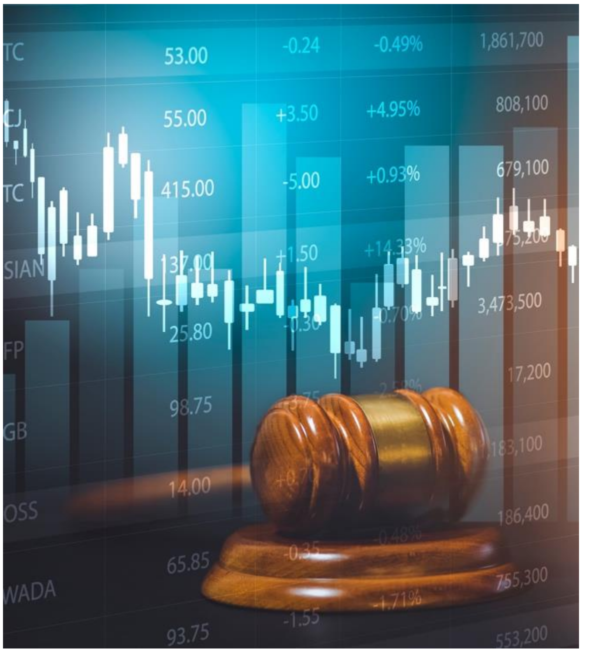
Legal developments on the transition to ZARONIA

Over the past few years, the Market Practitioners Group (MPG) has played a pivotal role in implementing the transition from the Johannesburg Interbank Average Rate (Jibar) to the South African Rand Overnight Index Average (ZARONIA). ZARONIA, published daily by the South African Reserve Bank (SARB) since 2 November 2022, is a near risk-free rate intended to replace Jibar by December 2026. This article outlines key legal developments affecting certain financial products and contracts as a result of the transition.

Credit adjustment spread

A key aspect of a successful transition is the adoption of a credit adjustment spread (CAS). The CAS acts as a margin added to the ZARONIA rate, ensuring that the economic position of the parties remains unchanged after the transition. Including a CAS in contracts that reference Jibar ensures that counterparties are maintained in the same economic position when Jibar is eventually replaced with ZARONIA.

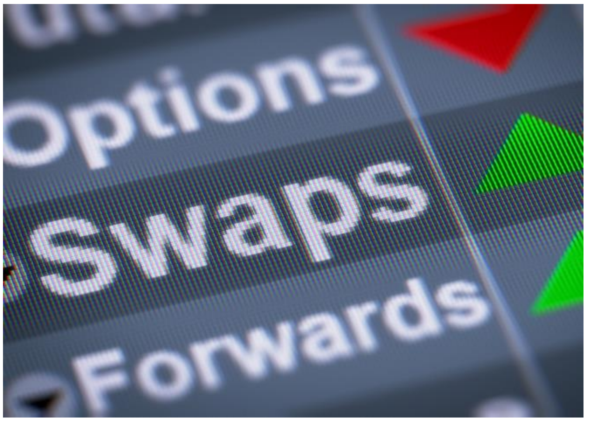
The MPG agreed that the South African interest rate market would adopt the standard International Swaps and Derivatives Association (ISDA) fallback methodology for calculating a fallback spread, which is the median value over a five-year lookback period. The five-year historical median calculation is based on the difference between a selected Jibar tenor and the corresponding compounded, in-arrears ZARONIA over a historical five-year period. The MPG's recommendation for the CAS was published on the SARB MPG webpage in March 2025. For more details on the MPG recommendation regarding the CAS, click here. Bloomberg started publishing the CAS from 10 April 2025.



Swaps and derivatives

Regarding swaps and derivatives, the SARB has collaborated with ISDA on publishing documents to support the transition from Jibar to ZARONIA. Firstly, Jibar fallback provisions were incorporated into the ISDA 2021 Interest Rate Derivatives Definitions (ISDA Definitions), which were published on 25 April 2025. As a result, from 25 April 2025, any swaps and derivatives transactions entered into on or after this date that reference the 2021 ISDA Definitions will include fallbacks to ZARONIA, provided they reference the 2021 ISDA Definitions.

Secondly, the ISDA Protocol was published on 25 April 2025. An ISDA protocol is a multilateral contractual amendment mechanism which is used to address changes to ISDA standard contracts and related documentation. The primary benefit for a party adhering to a protocol is that it eliminates the need for costly and time-consuming bilateral negotiations.



The ISDA Protocol can be used to amend existing swaps and derivatives transactions that reference Jibar (i.e. transactions concluded before 25 April 2025) so that those transactions will include fallback clauses to ZARONIA.

To listen to an interview on the CAS, the updated ISDA Definitions and the Protocol, click here.

On 24 April 2025, the Financial Sector Conduct Authority (FSCA) issued Communication 9 of 2025 in terms of which it expressed its support for the ZARONIA First initiative and prioritising the sequencing for linear derivatives. In this communication, the FSCA encouraged inter-dealer brokers to use ZARONIA as the primary benchmark when quoting linear derivatives.

Loan markets

The Loan Market Association (LMA) has published fallback language for loan contracts, primarily in the form of replacement screen rate language and the rate switch agreement. The rate switch mechanism functions as a hardwired fallback, including the details and mechanics necessary for transitioning from Jibar to compounded ZARONIA. To learn more and listen to an interview on the topic, click here.

The provisions relating to compounded ZARONIA are set out in the document and take effect upon the rate switch date, which is triggered either by specific

events or a predetermined date. The included triggers relate to the cessation of Jibar or its non-representativeness. There is also an option for parties to specify a set date in advance, allowing for an active transition and better management of any operational risks with too many contracts converting at the same time. The efficiency of the rate switch mechanism lies in that no further agreement is required. This means that a document containing rate switch provisions does not become part of the Jibar legacy stock, as no further amendments are needed.

In addition, the MPG Legal Workstream published a template addendum amendment agreement that serves as a standardised document for amending syndicated South African rand (ZAR) single currency credit facility agreements governed by South African law, facilitating the transition from Jibar to ZARONIA.

Exemptions under Board Notice 90 of 2014

On 24 April 2025, the FSCA granted an exemption for money market portfolios of collective investment schemes from the provisions of Chapter 2, Condition 8(4)(b) of Board Notice 90 of 2014 (BN 90). Condition 8(4)(b) requires that the applicable rate of the instruments must be known in advance, subject to a 24-hour historical limitation.

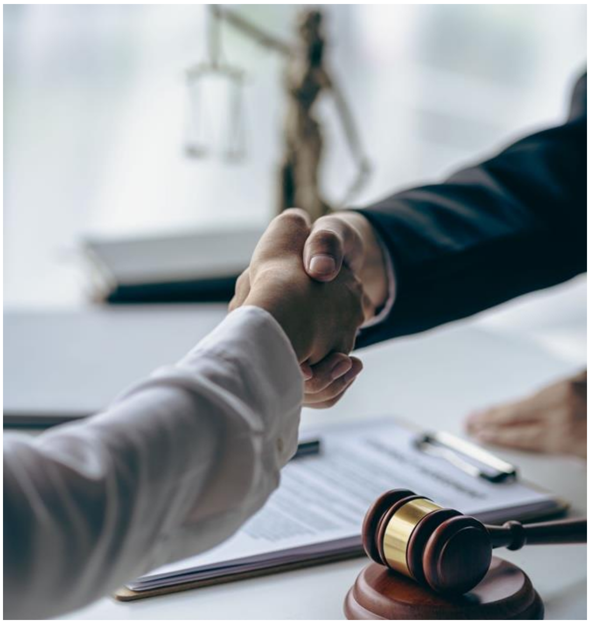
This exemption is aimed at supporting the transition of money market instrument from referencing Jibar to the ZARONIA benchmark interest rate and other similar rates.

Bonds and notes

The MPG Legal Workstream has collaborated on developing fallback language for bonds and notes. Issuers of bonds and notes may want to consider including this fallback language in legal documentation for new bond and note issuances. The published fallback language is available on the SARB MPG webpage here. Issuers are encouraged to use this wording for new bond and note issuances to support broader market adoption.

Legislation to address tough legacy contracts

An important initiative to support a successful transition is the enactment of primary legislation to deal with contracts that cannot be amended to include fallback provisions to ZARONIA before the cessation of Jibar (these are referred to as ‘tough legacy contracts’). In this regard, the financial sector regulators have been working with the relevant MPG members to draft amendments to the Financial Sector Regulation Act 9 of 2017 (FSR Act) to address these tough legacy contracts. The aim is for these amendments to the FSR Act to take effect before Jibar ceases. The draft FSR Act amendments will be published by National Treasury as part of the standard consultation process for amending primary legislation.



Document mapping exercise

At the request of financial sector regulators and under the MPG’s guidance, certain institutions were asked to complete a document mapping survey regarding their exposures to Jibar contracts, with a particular focus on contracts identified as tough legacy contracts. The feedback from the survey will assist the MPG in understanding both the volume and types of tough legacy contracts that may be impacted by the forthcoming cessation of Jibar.

Conclusion

Market participants are encouraged to incorporate fallback language in relevant contracts to ensure a timely and smooth transition, thereby mitigating any risks that could hinder a successful transition. Early adoption is recommended to facilitate a seamless process. Lastly, market participants are urged to regularly visit the SARB’s MPG webpage to stay updated on developments related to the transition to ZARONIA.

Mluleki Shongwe

Assistant General Counsel, South African Reserve Bank

Chairperson of the MPG Legal Workstream