MPG Transition Planning and Coordination Workstream

Qualitative survey feedback

Methodology

- The Transition Planning and Co-ordination Workstream has collated the feedback received from all market participants
- 9 banks responded to the survey – 5 local and 4 international
- 1 consolidated response received from ACTSA
- 7 responses from ASISA
- Initially, feedback was collated per sector – banks, NBFIs (through ASISA) and corporates through ACTSA. The intention was to determine whether there were specific themes that emerged, or were unique per sector. The next step was to collate feedback across all sectors, to present a summary view of the main issues emerging
- Care was taken not to overly "distill" the responses, and as far as practicable, to present them as is. All feedback is indicative of the current market receptiveness and readiness for transition, and responses were not omitted on the basis that there "should" be awareness of certain matters
- Where "yes" or "no" responses were required, we have provided a view on which was preferred.
- Where responses were similar or identical, we have consolidated them

Initial observations

- A clear “information gap” is apparent between banks and other sectors. One respondent noted that, between regulators, there appeared to be misalignment
- Whilst the survey was not intended to solicit views on the robustness or calculation methodology for ZARONIA, it is apparent that some market participants have a degree of skeptism and mistrust for a new rate
- Few questions received a unanimous response across all sectors. In particular:
  - All participants agreed with the initial focus on derivative markets
  - No participant has indicated that they will voluntarily adopt a rate – all have said they will require an official sector directive (more than simply endorsement of the rate)
  - All participants indicated that a term rate would be required
- Responses should be viewed in context – responses were requested before detailed transition plan had been made available to the market. May be merit in sharing results and soliciting further feedback at a later stage, once the relevant background information has been made available
- ACTSA survey format did in some cases limit the depth of responses, but risk that no responses would have been received had this format not been used. Balance?
- There is a need for more practical information on transition impacts, as opposed to high-level transition planning. A market education roadmap is required
- Emphasis on the need for market education as opposed to information
- The impact of the MPIF changes must be specifically addressed and discussed
- Liquidity in ZARONIA has been mentioned as a pre-requisite to finalizing the transition plan – Transition needs to clarify the Transition Path for market consumption

Initial observations

- Feedback has re-enforced a number of the issues we anticipated – difficulties with overnight rates, operational and system/technology dependencies, as well as the need for legal certainty and uniform adoption of contractual language
- The following specific requests for additional work / the establishment of new workstreams have been highlighted:
  - A request for a dedicated email address where specific queries can be sent to and answered (almost) real-time. Is this something worth considering and should it reside with the official sector? Does the general MPG address suffice? What is the correct communication channel – through the relevant industry representative, then to Transition, then to MPG once collated?
  - Clarity around the secured rate and its potential availability during the transition period
  - Communication should have a dedicated focus on "education" and a Market Education Roadmap should be prepared
  - Specific focus on whether the new MPIF will have a potential structural impact (changes to short term deposit pricing behaviour), which will in turn impact transition and the timelines thereof. A clear response on whether the timing of transition and MPIF creates a differentiator relative to other transitions (which will in turn impact transition timelines)
  - Consider market education around ZARONIA itself and its performance relative to JIBAR to dispel mistrust
  - Clarity on dynamic versus fixed spreads
  - The SteFI use case requires a formal position paper (current recommendation is that ASISA be mandated to propose way forward so that the MPG and industry can actively solve for these requirements) [will the ASISA task force suffice or does this work need to fall within the mandate of an MPG Workstream? If so, which workstream – Cash Markets / Term Rates?]
  - Foreign participants comprise a large portion of the ZAR Derivatives Market. Foreign market participation, particularly foreign banks, must be ensured [how can regular participation be ensured and co-opted?]
  - The survey responses did not provide the necessary detail around vendor engagement required – the Data Workstream will require separate engagements around these lists and to determine mechanisms to ensure priority

Summary of Regulatory/Accounting tax issues raised [for Governance Workstream consideration]

- FRTB – NMRF
- IFRS 9 - Recognition and modifications
- IFRS 9 / IAS 39 – hedge accounting
- IFRS 13 - CVA/DVA
- IFRS 7 - Disclosures
- Tax treatment (SA Treasury)
- Regulations – iro bank BA reporting and NBFIs need to change – informal discussions with FSCA CIS team have indicated that rates need to be fixed in advance – no compromise. Some changes are not just regulatory but need to go through the statutory process.
- FRTB, hedge effectiveness, matched adjustment premium
- CISCA Board Notice 90
- Regulation 28 to Pension Funds Act
- The Income Tax Act uses JIBAR in its tax risk assessment, for instance in relation to thin capitalisation calculations, and would therefore require amendment.
- References to JIBAR in the Regulations Relating to Banks would be subject to amendment but these are not extensive and largely of an illustrative nature
- The sale of NCD's by banks – these instruments are the base in setting the JIBAR rates across the curve, and even if the market adopts the new rate, while NCD rates are still readily available, market participants can use the NCD rates as base rates in transactions, especially bilateral loan agreements. The practice can be amended through regulations but would only apply to instruments subject to that regulation. A loophole will still exist for private market instruments/transactions
- Valuations of interest rate instruments would be impacted especially where projections of Jibar are used. The swap curve and discount factors would also be impacted. This would likely require a unified method that Jibar linked products are converted to use the successor rate.

Summary of potential “tough legacy” arrangements [For legal workstream consideration]

The following products were noted as possibly qualifying as “tough legacy” (either due to the nature of contracting party or product/legal complexities)

- JIBAR linked stock would require consent solicitation absenting robust fallback language.
- Multi-lender agreements
- Bonds with high thresholds
- Defaulted clients
- Structured notes
- Securitisations where the underlying is on legacy benchmark
- REIPPP contracts and other concession and PPP financing arrangements may fall into this category, these are long term and some may be linked to government guarantees and are linked to multiple parties with different objectives
- Corporate bonds and loans

Specific feedback

Qualitative Survey feedback
Foundational elements

1.1 Do you foresee any challenges to the adoption of ZARONIA as JIBAR's designated successor rate?

The following challenges were noted:

- developing liquidity for the new rate (which will impact adoption timing),
- agreeing fallback language across product sets, consistency in adoption of language
- building momentum for the proactive transition of legacy contracts.
- Systems will have to be able to cater for the successor rate. Automation of daily resets will be a major impact on calculating coupons to be paid. Identifying and reforming operational infrastructure
- Clarity on term options, or these options being finalised too late
- 1 bank respondent indicated that the designated successor rate was problematic, and that a secured rate is preferred
- Pricing and valuations will need new curves for pricing – who will publish the curves?
- Firms will need to engage clients to explain the change in rates and negotiate new
- Clarity on the transition of legacy positions and mechanisms to minimise value transfer
- Asset Managers that provide collective investment schemes which reference JIBAR for fund comparator/performance purposes will need to transition these funds to an alternative rate (ZARONIA). These rates do not lead to the same economic outcome and therefore managers will need to consider the risk associated with the transition (ensuring investors are not in a worse position).

Qualitative Survey feedback
Foundational elements

- Competition for scarce resources (the market is facing significant regulatory and other changes at the same time (Margining on OTC derivatives, Initial margin on derivatives, changes to Regulation 28, changes to the Financial Markets Act, etc) there might be some perceived resistance to adoption (or delayed adoption). Thus the transition plan should consider other changes impacting market participants.
- Perceived volatility in the new rate

1.2 In addition to the availability of the successor rate, what are the key building blocks required to precede the implementation of the 3 Pillars described above?

- Market participants unanimously indicated that clear, transparent, consistent communication is required
- Deep, liquid OIS market
- Standard legal templates for use across the market, including defined fallbacks across the product spectrum
- More education on WHY the successor rate will be more efficient than JIBAR and a better representative of the underlying prevailing market
- ISDA Protocol
- Key infrastructure and provider readiness
- Availability of term rates
- Understanding of the mechanics of the successor rate

Qualitative Survey feedback
Foundational elements

1.3 What actions are required to be taken to ensure that there is sufficient awareness of all market participants, around the cessation of JIBAR and adoption of the successor rate and in which area (workstream) does responsibility for these activities reside?

- All market participants emphasised the need for clear, transparent and consistent communication from the official sector
- The banks will be required to take a lead role in communication with non bank clients
- More written content to the market, additional workshops explaining practical impacts
- All work streams should make recommendations to the CWS where responsibility to shape market education should be centrally coordinated
- FAQ website and publication from the SARB as developments evolve and questions arise from market participants. In addition consider setting up email for all queries that can be directed to MPG workstreams for consideration in eg crafting rates, regulation as well as transition roadmap.

1.4 In your opinion, has the outreach performed to date been sufficient and successful? What more can/should be done?

- Generally, banks felt like the outreach has been sufficient, but non banks do not agree
- Outreach will be more successful with a clear path and interim milestones. Actions/deliverable for market participants might make this more “real”
- Communication must be practical – what are the impacts of the proposed changes?

Qualitative Survey feedback
Foundational elements

- There is some market dissatisfaction with the argument that any reference rate must be IOSCO compliant – when SA did not have a fixing scandal – a lot of costs are being incurred and the benefits are not clear

1.5 How much historical data in the successor rate should be provided before the expectation that derivatives markets should begin the adoption of this rate under Pillar 1?

- A wide variety of responses were noted
- Responses ranged from at least 1 year, 3 years, one bank suggested a data series that goes as far back as JIBAR, noting that they would want to see how JIBAR behaved during the financial crisis with a comparative of how ZARONIA would have behaved.
- An NBFI requested a data series as long as the current JIBAR history
- It was also noted that the introduction of the new MPIF introduces a potential structural impact on short term deposit pricing behaviour. This may impact ZARONIA and JIBAR disproportionately. If so data harvested post implementation of MPIF is necessary and relevant to inform the economic realities participants will be exposed to. This adds risks to the timing of adoption and transition. A minimum of 1/2 years post MPIF may be necessary to inform adoption in new contracts, more data may be appropriate to determine equitable spread adjustments for legacy contract transition to avoid legal challenges.

Qualitative Survey feedback
Foundational elements

1.6 How long should the period of observation for ZARONIA be, prior to adoption in contracts?

- Once again, a range of responses were noted: At least 1 year, 18 months, 2 years
- One respondent suggested a minimum of 1 years post MPIF to guide adoption, longer min 3 years to guide transition spread adjustments. If MPIF is found not to impact pricing behaviour structurally, 3/4 years old plus 2/1 year/(s) post data sufficient.
- Only 2 respondents suggested a shorter period, 6 months, would be sufficient

1.7 Is voluntary market adoption of the successor rate viable? Will your institution use this rate in place of JIBAR without any official sector directive to do so?

- Unanimously, market participants indicated that voluntary adoption without an official sector directive, would not occur
- Market participants further noted that voluntary adoption would increase risks of fragmentation and impede adoption

1.8 Are there any considerations around JIBAR credibility that need to be evaluated (for example, if there is a risk that JIBAR becomes discredited prior to the planned cessation date)

- No material issues were raised, but it was noted that consistent messaging is required around why the need for transition, a clear implementation plan for transition, continued enforcement of code of conduct and submission requirements
- Construction of the added measures, specifically increased price making commitments designed to underpin greater credibility in the contribution based determination of JIBARs, not perfect but most effective in the context of limited depth of transactional activity.
- More focus should be placed on credibility of the new rate – the bigger risk is market “distrusts” this rate

Qualitative Survey feedback
Foundational elements

1.9 In your view, are there any pre-requisites in finalising the transition plan(ie certain elements that must be embedded before the MPG are able to finalise a transition plan)? If yes, what are these?

- Given the limited use of 1, 6, 9 and 12m JIBAR, timely restriction of use to narrow activity to 3m JIBAR.
- Credible landing of overnight rates and understanding of structural behaviour.
- Consistent application of conventions across product for new contracts as well as fallbacks.
- Market education roadmap.
- Establishing an ISDA protocol and alignment of cash market. Confirmation that the spread mechanism is appropriate and will apply
- Transactional quantitative data insights to best inform timing.
- Minimum backward looking term rate development.
- Alignment of trading and valuation capabilities across venues including exchanges, CCPs.
- Fair and equitable spread adjustment methodology to drive final cessation of JIBARs.
- One market participant indicated that a functioning OIS market was a prerequisite (ie that an OIS market is actually a “Foundational” activity)

Qualitative Survey feedback
Foundational elements

- To understate term rates with inappropriate (non-dynamic) risk spreads (‘premia’) will encourage excessive borrowing or not allow the market to find a natural balancing rate for demand and supply of funding. It may undermine the stability of our financial markets. When a rate hiking cycle is imminent, the 3m-JIBAR gap versus the overnight repo rate is wider than the gap is at the top of the hiking cycle. This compensates lenders for the (imminent) rate hike. The gap may also widen when liquidity dries up. Will the term premia be dynamic to account for this? Surely term premia always capture some element of market ‘expectation’.

1.10 Are there any potential regulatory, accounting or other market practices which embed use of JIBAR in financial markets and assessing the feasibility of amending such practices

- The South African Income Tax Act uses JIBAR in its tax risk assessment, for instance in relation to thin capitalisation calculations, and would therefore require amendment.
- References to JIBAR in the Regulations Relating to Banks would be subject to amendment but these are not extensive and largely of an illustrative nature so do not materially impact Branch’s regulatory reporting process.
- Hedge accounting programs and basis provisions will need to be recalibrated
- STeFI – this is a term money market benchmark used in the asset management industry
- The sale of NCD’s by banks – these instruments are the base in setting the JIBAR rates across the curve, and even if the market adopts the new rate, while NCD rates are still readily available, market participants can use the NCD rates as base rates in transactions, especially bilateral loan agreements. The practice can be amended through regs but would only apply to instruments subject to that regulation. A loophole will still exist for private market instruments/transactions
- CISCA Board Notice 90
- Regulation 28 to the Pension Funds Act

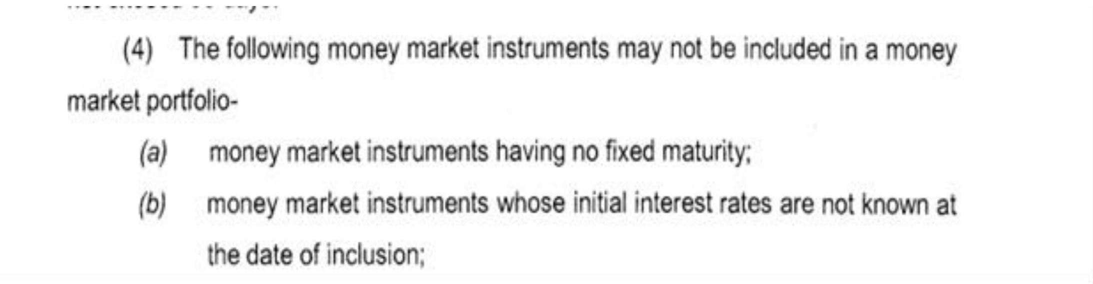
Qualitative Survey feedback
Foundational elements

1.11 Do you foresee any unintended consequences of JIBAR transition (for example, impacts on other rates such as SteFI)

- Market participants may track rates as a spread to Jibar. The transition may cause some temporary disruption as participants recalibrate their price points.
- The potential impact on Money Market/Core Income Funds may need to be considered.
- Inability to develop forward looking term rate
- Approach to transition must ensure financial market liquidity is maintained if not enhanced.
- The important use case of SteFI requires a formal position paper, recommend ASISA be mandated to propose way forward so that the MPG and industry can actively solve for these requirements.
- JIBAR term rates are an input into the SteFi Benchmarks used by the asset management industry as a performance benchmark. Thus, industry reform would need to take place which would need to be discussed in more detail in a new workstream. There are several workarounds: a new benchmark could be calculated either by taking a "screen shot" at a particular time of the various bank screens to calculate a "market average" appropriate for benchmark performance or the market (as per some global markets) moves to ZARONIA benchmark rate plus (or minus) an appropriate spread if so determined.
- JIBAR curve used for pricing purposes: Some asset managers would use the JIBAR points as inputs for pricing curves. Again, individual banking curves could be used as pricing "inputs" instead of JIBAR.

Qualitative Survey feedback
Foundational elements

- In some cases, there may be impacts on some life insurance products which involve the use swap yield curves for valuation and matching/hedging purposes.
- CISCA Board Notice 90 will require amendment



(4) The following money market instruments may not be included in a money market portfolio-

(*a*) money market instruments having no fixed maturity;

(*b*) money market instruments whose initial interest rates are not known at the date of inclusion;

- ***1.12 Should transition from other rates such as SAFEX be contemplated as part of the transition to ZARONIA?***
- Respondents varied (almost evenly). On the "no" responses, market participants noted that the official sector should first focus on getting JIBAR transition right, then consider other rates. The "yes" responses noted that:
- These rates do not comply with benchmark regulations and there is a need for consistency to support hedging across exchanges.
- Rates of the same tenor should be consolidated as far as possible
- The SAFEX Overnight Rate is the rate that the JSE pays on margin and default fund contributions. The JSE places the funds on deposit at high credit quality local commercial banks with not more than 30% being invested at a single institution. Margin holders are paid interest at the SAFEX Overnight Rate which is the weighted average rate received from the banks.
- Alignment of rates across margin and default fund contributions, as well as between collateral pledged in derivatives transactions (PAI) can further enhance liquidity
- JSE engagement required

Qualitative Survey feedback
Foundational elements

1.13 Are there any nuances in the South African market that may impede the adoption of the successor rate? Does the application of exchange control for example mean that the use of an overnight rate is not suitable, as there is not sufficient payment visibility in advance? How many of your contracts will be impacted by these limitations?

Some market participants noted that there were no SA specific nuances, others noted the following (including structural issues):

- Exchange control is adjudicated at prime as opposed to JIBAR but there may be challenges in terms of the capturing of cash flows at inception in the absence of an upfront fixing of interest. The SARB loan system displays the JIBAR interest rate applicable to foreign loans and would need to be updated to account for an alternative rate.
- South Africa does not have an over-night IRS market and there is hence a need for a market in ZARONIA/JIBAR basis
- thinness of debt trading market, volatility of the Rand vis USD for export driven parts of the economy, general lack of liquidity in overnight market v term markets
- Foreign participants comprise a large portion of the ZAR Derivatives Market. It is therefore imperative that foreign participants are engaged and buy into the transition.
- The SA market is one-directional ie most banks are receivers of the fixed rate, will there be sufficient liquidity and appetite on the payers of the fixed rate?
- Three month JIBAR is so entrenched in current cash and derivatives markets, as well as benchmarks, that the inefficient management of legacy transactions could be an impediment to adoption. We need to consider transition of legacy contracts in parallel with the cash and derivatives markets. Our plan to transition in parts might be an impediment to adoption.
- Large number of unsophisticated corporate lenders / borrowers can handle the last-minute payment uncertainty, especially if they are applying for SARB clearance on foreign exchange payments in excess of certain amounts.
- Unexplained volatility
- Timing of transition and MPIF creates a differentiator relative to other transitions
- Small number of banks relative to other markets that have transitioned

Qualitative Survey feedback
Foundational elements

1.14 Do you have exposure to JIBAR other than through contractual arrangements, and if so, what is the nature of this exposure (eg internal processes)?

- JIBAR linked to existing agreements are used in IRRBB and FTP models.
- Internal funds transfer pricing
- Valuations (curves)
- Hedge accounting
- We construct our own Yield curves for valuation purposes where we do use JIBAR at times.
- Internal fund pricing mechanisms
- We use the STeFI benchmark which is constructed using JIBAR

1.15 How often should "quantitative surveys" around JIBAR usage and run-off rates be performed?

- Most respondents indicated that quarterly surveys would suffice
- Some preferred annual surveys, whilst 1 preferred 2x per year

Qualitative Survey feedback
Foundational elements

1.16 Do you foresee the use for other overnight rates to continue, e.g., SAFEX, bearing in mind that these rates are not IOSCO compliant in their current form and will not meet the requirements under the upcoming benchmark regulations? Please identify the overnight rate and indicate the complications in transitioning away from them.

- The majority of respondents indicated a preference for cessation, noting that usage of non-IOSCO compliant rates should not be continued, and it would enhance transition if ZARONIA was the only overnight rate. Suggestion was made that all non IOSCO compliant rates feeding indirectly into derivative and/or cash instrument pricing should be discontinued.
- Other respondents noted that market participants should be free to select a rate and that transition should stick to its primary purpose (JIBAR). One respondent noted that "investors are not concerned with IOSCO compliance"

1.17 Would ZARONIA credibility be impacted if it is published on a T+2 and not T+1 basis?

- Only a single respondent noted that credibility would not be impacted. In favour of T+2, the bank respondent noted that:
- There are various benefits of a T+2 submission such as data accuracy and completeness.
- addressing a day lag is not a material issue from a technical perspective.
- T+2 also has benefits for the fund management community who have to undertake valuations to ensure appropriate transfer of value between inbound and outbound investors.
- This will also not be a new market development as Jibar and Libor did have a timing difference and the market was able to adapt
- One market participant expressed support for t+0 publication

Qualitative Survey feedback
Foundational elements

1.18 Please state any use cases of SABOR within your organization

- Only 1 bank responded that it used SABOR as a remuneration rate for tax and loan accounts
- For NBFIs, it was noted that:
  - SABOR is mentioned in all CSA's where cash held on collateral must be higher than SABOR
  - Used as an anchor in the construction of yield curves

1.19 Please state any use cases of SAFEX within your organization

The following use cases were noted:

- Prime finance business
- Valuation curves - Used as an input into yield curves, which are used for the valuation of liabilities and some assets.
- SAFEX is the interest rate paid on our Futures margin cash. It is the rate that is earned by the exchange on their excess cash deposited at banks.
- SAFEX is utilised in our CSA agreements for collateral management
- Equity futures
- Money market investments

Qualitative Survey feedback
Pillar 1 – Derivatives market adoption

2.1 Do you agree with the initial focus on derivatives markets?

All respondents unanimously agreed

2.2 How long will an OIS market take to develop?

- The majority of respondents indicated that 1 year should be sufficient, but noted that the market would require official sector support, such as RFR first initiatives (international banks noted that until USD LIBOR new trades were ceased SOFR accounted for only 5-10% of market, but since this initiative there has been a large increase in trading and liquidity)
- Three respondents stated that 3 to 5 years would be required

2.3 What are the potential impediments to development of this market and how can these be resolved?

- Lack of clear, transparent and constant communication – clear official sector milestones required, together with appropriate supervision
- Clear "no new JIBAR" dates
- Understanding and credibility of ZARONIA
- Structural impediments – the market is one-directional (most banks receive fixed rate)
- Operational issues – calculation methodologies must be clearly understood
- Technical support

Qualitative Survey feedback
Pillar 1 – Derivatives market adoption

- How are futures markets going to evolve ? Because the SA repo market is dysfunctional, SA has single bond futures – and how are equity, commodity and interest rate futures going to operate ?
- Lack of support/understanding of cash market implications

2.4 What are the necessary building blocks required for other (eg non-linear, basis) derivatives instruments to reference the successor rate? What are the necessary conditions required to commence development of this market?

- A ZARONIA vs JIBAR basis swap market should be established to build liquidity in ZARONIA in respect of non-convertible JIBAR exposure. Key building blocks consist of market wide agreement on settlement conventions as well as support for ZARONIA on impacted exchanges.
- A history of the ZARONIA rate that is long enough for a well-informed basis market to be formed while Jibar and the successor rate co-exist.
- Market liquidity on these non-linear instruments to allow for successful model calibration
- Volatility surfaces – swaptions, caps, options
- Consider how VaR / ES models will cope with lack of historic data and need to change boundaries
- Other FRTB related implications (e.g. NMRF)
- RFR first for interdealer screens
- Market understanding of impact on previously vanilla instruments (e.g. caps/floors become 'Asian options')
- ZARONIA forward market is required
- Sufficient liquidity in the market for linear derivatives

Qualitative Survey feedback
Pillar 1 – Derivatives market adoption

2.5 Would the availability of the successor rate lead to a voluntary adoption in derivatives markets, or is official sector action required? [Note that the UK regulators initially proposed a 2-3 year transition plan of the OIS market to a secured rate where this was being considered]

All respondents indicated that official sector action is required. Respondents raised the question on how to incentivise adoption

2.6 Would complementing OTC derivatives products with futures contracts in the successor rate be viable or necessary? If so, what are the requirements for the development of these products? What are the key factors for product success and what are the user preferences? Do market participants or infrastructure providers have any views on the preferred design and use of a futures contract referencing the successor rate?

- Responses ranged from essential, no and unclear. The following responses are noted:
- Great wealth of international experience to draw lessons from
- SOFR and SONIA futures are the most liquid instruments at the moment
- The futures market has been slower to adopt in other rates futures contracts so consideration early would be necessary. Albeit if the product is available then it would be a catalyst to moving to ZARONIA
- Futures contracts in the successor rate should increase liquidity which would assist in the acceptance of the successor rate.
- To date, there has not been widespread market use of futures contracts referencing the incumbent JIBAR rate. Even at their peak in 2021, JIBAR and Swap futures accounted for <1% of the traded value across all JSE-listed interest rate derivatives. For most market participants who are already comfortable with trading OTC derivative products referencing JIBAR, there has been no need to venture into the listed space which has thus not reached sufficient scale to make it a viable alternative. Although the transition may provide listed derivatives referencing the successor rate the opportunity to experience greater adoption than currently, they are still likely to be dwarfed by the size of the OTC market. Bond futures typically reference a repo rate (a collateralised rate) and Forex Futures typically reference a forex forward rate (includes basis risk). These factors would need to be considered.

Qualitative Survey feedback
Pillar 1 – Derivatives market adoption

2.7 Will clearing eligibility for OIS in the successor rate support its adoption?

- All bank responses were affirmative, noting that any measures that increase liquidity will assist in adoption
- The responses from NBFIs noted that:
    - Although the offshore markets clear OIS and this is more efficient we don't see that this will support adoption of the new rate.
    - The market is not ready to clear, implementing clearing and ZARONIA at the same time is going to present challenges for the market.
    - As a domestic asset manager that cannot use international clearing houses, this is not a swing factors

2.8 Should our market adopt fixing conventions that closely, if not precisely, mimic SOFR/SONIA?

All respondents agreed, noting:

- Market conventions that are consistent across jurisdictions will reduce the operational and technology investment costs associated with preparing the Firm for the new rates / products. As such it is preferable for the market to align conventions across rates where possible.
- Would help with liquidity from international market
- Significant education and adoption of conventions happened through adoption of SOFR, following suit could be beneficial
- Alternative conventions could add unnecessary complexity in the management of cross currency positions and increase the cost of system customisations

Qualitative Survey feedback
Pillar 1 – Derivatives market adoption

2.9 What are the impacts, across the entire derivatives product spectrum, of not knowing cash flows in advance (JIBAR payments are currently set at the start of a floating rate payment period, whilst floating rate payments referencing the new rate will likely be set at the end of an interest period based on realized daily fixings)

- Market participants who have transitioned in advance rates to overnight rates (e.g. LIBOR to SONIA/SOFR etc) have seen limited impact from the transition. Communication and education of those market participants for whom this transition is novel will be required to ensure understanding of potential impacts and the steps to mitigate such impacts.
- This is not as big a challenge in the professional participants derivative space. Market has transitioned to OIS after GFC
- Alignment of forecasting and discounting curves is beneficial
- Forward term rates will be necessary for less sophisticated clients who want to hedge cash positions and lack the operational capability to manage complex overnight fixing derivatives and cash products.
- The impact should not be material. The difference will be just the current period that changes the cashflow from being known to being forecast. Cashflows in other periods will be forecast as they are currently under Jibar instruments.
- Makes cashflow planning more uncertain for the quarter.

Qualitative Survey feedback
Pillar 1 – Derivatives market adoption

- Clients are used to knowing their reset interest payments for the next 3 months in advance. This will change to say 5 days in advance. Will give less time for cashflow planning, analysis and management and create uncertainty in the budgeting process.
- The main impact observed after the cash flow uncertainty element described above would be the necessary system development and upgrades required to support the new conventions used in overnight compounding to overcome the operational challenges (as observed in IBOR markets) with such a rate.
- Furthermore, one of the biggest issues we have seen on SONIA and SOFR is agreeing and the understanding of Fixing Offsets/Lags with clients. With a move to ZARONIA, this is no longer standardised and can be agreed bilaterally. Each bank will potentially use a different fixing lag
- A functioning forward curve needs to be established to calculate both cashflows and yield.
- For money market unit trust funds (CISCA Board Notice 90), the interest rate or basis for the rate must be known in advance
- Accounting/tax processes would need to cater for the same convention in which the rate is compounded and set
- The alternative is the use of the rate on a T+1 basis, so use yesterday’s realised rate today. This might be easier to overcome some of the regulatory hurdles but it does not solve the term rate issues
- It might make it very difficult for banks and corporates to hedge themselves and may raise the cost of hedging in the market.
- Operational complexity in terms of payments/settlements

Qualitative Survey feedback
Pillar 1 – Derivatives market adoption

2.10 What are the potential regulatory, accounting or other market practices which embed use of JIBAR, what is the feasibility of amending such practices?

- Valuations of interest rate instruments would be impacted especially where projections of Jibar are used. The swap curve and discount factors would also be impacted. This would likely require a unified method that Jibar linked products are converted to use the successor rate.
- FRTB – NMRF
- IFRS 9 - Recognition and modifications
- IFRS 9 / IAS 39 – hedge accounting
- IFRS 13 - CVA/DVA
- IFRS 7 - Disclosures
- Tax treatment (SA Treasury)
- Regulations – iro bank BA reporting and NBFIs need to change – informal discussions with FSCA CIS team have indicated that rates need to be fixed in advance – no compromise. Some changes are not just regulatory but need to go through the statutory process.

Qualitative Survey feedback
Pillar 1 – Derivatives market adoption

2.11 Are there any other issues related to the development of interest rate derivatives products referencing the successor rate, which the Group needs to consider (this could include the need for international co-ordination for adoption in cross-currency swap markets, operational challenges)?

- Would need international coordination for adoption in CCS markets
- Operational and legal admin and costs
- Banks will be forced to educate clients on transition and fallback rates, even where this has been officially communicated
- Basis curves
- Legacy non-linear derivative contracts and potentially altering the mechanics and hence creating scope for value transfer
- International alignment of conventions and benchmark rates
- Impact on cash markets (e.g. availability of hedging)
- International consistency would be preferable for ease of adoption in the cross-currency swap market.
- Firms would require their custodians, third-party technology, and operations vendors to complete all necessary enhancements to support pricing and risk analytics of products referencing the successor rate pre-adoption.
- Pricing issues would be the most prominent issue we foresee.

Qualitative Survey feedback
Pillar 2 – Adoption in cash/other markets

3.1 What is the range of products currently referencing JIBAR across the South African market, and are there products that will more easily lend themselves to a transition to the successor rate?

- Credit derivatives, cross-currency swaps, interest rate swaps, forward rate agreements, caps collars and floors, interest rate swaption, repo & reverse repos, banking book loans, trade finance, client accounts within treasury services
- Besides derivatives markets, money market loans and deposits could reference JIBAR and easily lend themselves to transition to the successor rate if they are short dated with no designated hedges
- Funding instruments: Loans/Deposits, GOVI Bonds, Corporate bonds, NCDs, capital instruments such as Additional Tier 1 and Tier 2 capital
- Structured Notes referencing Jibar or who's underlying components contain or reference Jibar
- In the fixed income space it is floating rate notes (bonds, loans, securitisations), this has increasing been the instrument of choice for most borrowers/issuers in the credit market. Most reference 3m JIBAR and constitute a significant portion of both the listed and un listed credit markets – a change here would lead to significant adoption rates
- Structured products – credit linked notes, step rate notes, mixed rate notes
- Working capital facilities

Qualitative Survey feedback
Pillar 2 – Adoption in cash/other markets

3.2 What is the appropriate scope of adoption of the successor rate across the broad spectrum of financing instruments?

- Market participants expressed that all products should be considered (that currently reference JIBAR)
- It was noted that the availability of a term rate would be relevant as some products cannot reference an overnight rate and that may be a limitation
- Discounting products will require some sort of forward curve. Should avoid dolarisation of Trade Finance within SA
- There is a need to publish deposit rates – such were rejected due to insufficient volume – well clearly term deposits have less volume than overnight rates. Please reconsider. The repo market and SASFR need attention as a matter of urgency.

3.3 What issues might arise in relation to referencing the successor rate in these instruments?

- Demand for a term rate may delay transition by those market participants until it is clear on the MPG and official sector stance on the creation of such a rate. An early decision on the subject would provide welcome clarity to market participants and provide certainty on the required steps to transition.
- Long term floating rate loans and deposits often have hedges tied to them, unwinding these will be problematic
- Setting the interest rate for an interest rate period is not usual market practice and this may take getting used. This may manifest in systems used to book instruments that use the successor rate.
- Switch cost and how it is applied on existing contracts
- Credit adjustment spreads

Qualitative Survey feedback
Pillar 2 – Adoption in cash/other markets

- Conversion of borrowing rates to offered rates
- Change in the economic substance of contracts
- Change in value of contracts and appropriate compensation mechanisms, if appropriate
- Market acceptance and (short term) impact on economic activity
- CISCA Board Notice 90
- The calculation of yield on money market funds needs to be considered
- Systems and operational issues
- ZARONIA potentially not fit for purpose

Qualitative Survey feedback
Pillar 2 – Adoption in cash/other markets

- ***3.4 Are there products used in the South African market context where the adoption of the overnight successor rate may not be appropriate (eg SME lending etc)? These should encompass where there are bespoke product characteristics that will impede adoption of the successor rate, as opposed to those instances where there is simply a preference for a term rate structure such as JIBAR.***
- Using the successor rate for retail products could possibly add a level of complexity that retail customers would not ordinarily be able to calculate. It is likely as well that the retail customer, in general, is unaware of Jibar and thus would be equally unaware of the successor rate.
- Trade and Working Capital products typically reference term rates and adopting an overnight rate for these products will be challenging and could potentially cause a lot of issues in the market hence a term rate is preferable. These products include:
  - Supplier finance
  - Receivables finance
  - Selective receivables finance
  - Call loans on the MMLs side,
  - Trade loans or any other short-term products
- It should be noted that certain clients (especially in the Retail and SME space) will likely be appreciative of a term rate instead of an overnight rate, despite the fact that an overnight rate may well be appropriate/feasible (prime examples are Switzerland and Singapore, where SARON and SOR are expected to be overnight only).

Qualitative Survey feedback
Pillar 2 – Adoption in cash/other markets

3.5 Does the South African market believe that a term structure based on the successor rate will be required in the long run

All respondents indicated that a term rate is required, some believed it was a precondition to transition

3.6 Is there a preference for the construction of a forward-looking term rate?

Most respondents indicated a preference for a forward-looking term rate. One noted that, in the absence of IOSCO compliance, backward-looking will be sufficient.

3.7 Would a SARB administered term rate be required?

- More respondents indicated "no" or unknown.
- The preference is for a SARB overseen, but privately administered rate. Responses indicated that 'SARB should not be in the business of providing rates"
- Further research required

3.8 Are there vendors that may be in a position to provide such a rate?

- Responses noted that vendors should comment and indicate interest. The following possibilities were named:
- Bloomberg or Reuters/Refinitiv
- Banks
- Alexander Forbes
- JSE

Qualitative Survey feedback
Pillar 2 – Adoption in cash/other markets

3.9 Should the use cases for such a term rate be limited?

Five respondents indicated that no limitations were necessary. The remaining responses noted:

- Experience from the transition of other rates e.g. LIBOR indicates that demand for a term rate is limited to certain sectors of the market e.g. less sophisticated borrowers. Limiting the use cases of a term rate ensures that such participants can benefit from a term rate whilst ensuring that there is no detriment to broader adoption of the overnight rate. The Firm encourages the MPG to review the use cases recommended by the ARRC and the Bank of England Sterling RFR Working Group for examples.
- Consideration for using Term in Cash not derivatives
- Confined use cases will prevent “inverse pyramid”
- If the rate is IOSCO compliant, there should not be limitations. If not, limitations might be necessary but enforcing any limitations would be difficult to monitor
- Use should depend on client need or market, not dictated

Qualitative Survey feedback
Pillar 2 – Adoption in cash/other markets

3.10 Do you anticipate the use of rates other than ZARONIA (or any ZARONIA term rates) as an alternative to JIBAR going forward?

- Only 2 respondents said “Yes” noting that fixed rates and Term Wholesale Financial Corporate Fixed Deposit Benchmark Rate or Term Wholesale Non-Financial Corporate Fixed Deposit Benchmark Rate would be used
- Alternatively, a secured rate based on overnight interbank lending may be used going forward

The “no” responses indicated as follows:

- SAFEX is utilised in the pricing margin placed on the JSE and SABOR references a funding mix, including FX implied. Neither are an accurate reflection of the cost of local funding. It is for this reason that BASA requested SARB build ZARONIA on the basis of transactional data.
- Liquidity build should be concentrated in ZARONIA

Qualitative Survey feedback
Pillar 2 – Adoption in cash/other markets

3.11 Would multiple term options be necessary or would a single term fixing option be sufficient?

- Most respondents indicated that multiple term options would be necessary. Some indicated that it would be "beneficial", but should be driven by the data. Responses noted the following:
- Term rates up to 6 months should be a priority
- 3, 6 and 12 months preferred (1 respondent suggested including 1 and 9 months as well)
- 1 respondent indicated that only a single term fixing would be required
- The JIBAR quantitative survey is a good source to narrow the field on term rate tenors – this information should be shared widely and discussed
- Currently a swap curve is published to the market daily by the JSE. This curve is constructed with JIBAR term rates on the short end, FRA points in the middle and SWAP rates on the long end of the curve. This curve has been adopted in South Africa as the market standard curve to price swap derivate instruments.
- There is also a money market curve adopted by the South African market with the Rand Overnight rate as the short end of the curve coupled with monthly NCD rates out to the 60 month point. Consideration should be given as to how these curves will be constructed going forward as well as who would be publishing this information formally to the market.

Qualitative Survey feedback
Pillar 2 – Adoption in cash/other markets

3.12 What incentives could be identified to adopt the successor rate while JIBAR still exists?

- Clear transition milestones set by the official sector or the MPG would be beneficial to market development.
- Experience from the transition of other markets shows that industry work-group defined "RFR first" milestones, supported by official sector supervision have been beneficial to market adoption and the development of liquidity across products. In addition, the use of a clear date at which the official sector mandates that no new use the legacy rate is permitted whilst still publishing the rate for use in legacy contracts has been a successful tool used in the transition from USD LIBOR to SOFR in the USD market and could be considered by the MPG / SARB.
- The key is a deep, liquid OIS market with tight bid-offer spreads for volume
- Lenders (not borrowers) require an incentive to be compensated for the yield differential between overnight rates and the 3 month point on the yield curve
- Term rates need to exist
- Perhaps a smoother process for instruments that would be listed, maybe by way of a disclosure requirement for explanation in cases where the successor rate is not adopted.
- Lower capital holding costs
- Free legal and pricing advice for corporates

Qualitative Survey feedback
Pillar 2 – Adoption in cash/other markets

3.13 What are the potential regulatory, accounting or other market practices which embed use of JIBAR, what is the feasibility of amending such practices?

- Valuations of interest rate instruments would be impacted especially where projections of Jibar are used. The swap curve and discount factors would also be impacted. This would likely require a unified method that Jibar linked products are converted to use the successor rate.
- FRTB – NMRF
- IFRS 9 - Recognition and modifications
- IFRS 9 / IAS 39 – hedge accounting
- IFRS 13 - CVA/DVA
- IFRS 7 – Disclosures
- Tax treatment (SA Treasury)
- There may be reference to JIBAR in some client Investment Management Agreements, or more specifically references to sub-indices in the STEFI, so that will need to be explicitly addressed when dealing with STEFI
- It appears as not all departments of the FSCA understand transition or are apprised of developments, and are possibly delivering conflicting messages

Qualitative Survey feedback
Pillar 3 – Legacy transition

4.1 Do you agree that there are merits in exploring the conversion of legacy portfolios – across both interest rate derivatives and other instruments – to reference the successor rate?

Most respondents indicated that there was merit in legacy conversion. In addition, respondents noted:

- A hybrid situation where Jibar and the successor rate co-exist is likely to slow the adoption of the successor rate.
- Arguments for: consistency and liquidity. The benefit on having a single reference across all contracts will outweigh the transition and replacement headaches.
- Arguments against: complexity of transition
- Forced conversion may be needed beyond a specific time horizon – synthetic or non-representative rates can also help but, if without limits, will discourage active transition

Qualitative Survey feedback
Pillar 2 – Adoption in cash/other markets

4.2 Alternatively, do you believe that legacy positions should simply be allowed to roll off without any transition, and if so, how long should JIBAR be kept alive to facilitate this?

- Most respondents indicated that a hybrid approach was required, shorter dated maturities should roll off but a directive on “no new JIBAR” must also be made together with a clear cessation date
- Divergent views on what period would suffice – 1 year, 3 years, 5 years, 10 years
- This is a viable option if there is a clear date for no new use of the legacy rate.
- You have to have a cessation date to both ensure transition and avoid IOSCO non compliance
- Should be informed by quantitative survey and market engaged on the results
- there are some very long term legacy contracts in the market and keeping JIBAR alive to facilitate these would discourage adoption and add additional admin on the SARB, some of these contracts might easily convert to the new rate while there will be those that wont.
- some especially complex instruments with very specific structuring exists in the market already. The undoing of these structures might be very expensive, so in this case there will be no incentive for the parties to transition to the new rates in this scenario. It might be useful for the transition workstream to get a sense of the transactions (volume, size and type) that fall into this category. But for these positions we might need to keep a form of JIBAR alive, but it depends on how many of these positions exist.

Qualitative Survey feedback
Pillar 2 – Adoption in cash/other markets

4.3 What are the challenges and issues that might arise in this conversion process?

- Communication and education of market participants to adopt fallback language ahead of cessation and the need to be operationally and technologically prepared for contract conversion at cessation.
- Valuation differences
- These are usually designated hedges and unwinding them will result in upfront PnL implications and potential lost eligibility of the hedge
- The amendment of legal contracts will likely be one of the biggest hurdle in the process. It may not be possible to find a single standard manner of conversion.
- Market understanding of look-backs, lock-outs and fallbacks, especially with smaller corporates
- All foundational aspects (regulatory, accounting, legal etc)
- Lack of uniformity in approach
- Asymmetry of information – banks will have tools and resources to predict conversion outcomes, which other participants may not have

Qualitative Survey feedback
Pillar 2 – Adoption in cash/other markets

4.4 How can the market deal with the economic discrepancy arising from the basis between JIBAR and the successor rate, in particular the lack of bank credit and term premia within the successor rate?

The following responses were noted:

- Open and transparent market consultation on a spread adjustment to account for the difference between the rates and to ensure that any transition of contracts occurs with minimal value transfer between market participants.
- a possible solution would be a first initiative launch to allow for market dynamics to play to surface the credit and term premia
- Market could wear the basis risk or a margin can be added to the successor rate to bring it closer to JIBAR
- Bank credit premia: theoretically a challenge only for banks. Consumers benefit from RFR benchmarking as they do not typically dislocate during times of banking sector stress
- Term premia: banks will address as part of FTP/pricing. For consumers, transparency of quotations is essential
- This may well be the transition topic with the biggest impact, as any decisions will impact the economic value of -at least-switching contracts. Other than the economic impact, attention should be paid to the accounting treatment (modification) of such transitional arrangements.
- Consider international CAS mechanism
- However in considering the approach to spread calculation, allow a minimum of 24 months post MPIF to calculate the historical median

Qualitative Survey feedback
Pillar 2 – Adoption in cash/other markets

It is worth considering a CAS fallback rate structured in a similar manner to the ARRC's consumer cash products fallback whereby

i. At the beginning of the transition period, the 10 working day median difference is used

ii. After the transition period, the 5 year median difference is used

iii. In the interim period, linear interpolation between the two rates is applied

Banks should be afforded sufficient time to develop and recalibrate their pricing models

***4.5 What tools are available to encourage sufficiently broad participation in a conversion mechanism, particularly considering that it is unlikely that associations like ISDA and the LMA will provide tailored support for the South African market*? [Note that ISDA and LMA support has since been confirmed]**

- Support from ISDA and the LMA are crucial to ensuring broad market awareness and adoption of robust, transparent fallback language. Ensuring support from such associations is an important pre-requisite to any transition planning.
- Official sector communication
- The SARB endorsing the successor rate would encourage participation. Institutions such as ASSISA and ACTSA endorsing the successor rate would further lend it credibility and participation.
- Banks should take an active role in supporting their clients

Qualitative Survey feedback
Pillar 2 – Adoption in cash/other markets

4.6 Would conversion require a “spread” to be added over the successor rate when converting JIBAR products to the new rate?

Almost unanimously, participants agreed that a spread would be required. The following responses were noted:

- Most likely, in order to reduce basis risk. However, market participants noted LIBOR transition experience showed there are pros and cons

- Dynamic spreads can be more useful but complex, whilst static spreads can become out of market quickly

- Depending on stock of legacy and transition mechanisms, forced active transition will not require CAS (instead of fallback based conversion)

- For fallback based conversion, a well understood and public spread may be beneficial (but with downsides if fixed, as per above)

Qualitative Survey feedback
Pillar 2 – Adoption in cash/other markets

4.7 Are there any regulatory, tax or accounting implications of converting a contract?

- Accounting implications would be if designated hedges are converted, could result in upfront PnL implications and potential lost eligibility of the hedge
- Clear guidance and exemptions required
- Tax guidance required from National Treasury
- FRTB, hedge effectiveness, matched adjustment premium

4.8 Are there fallbacks in existing contracts to minimize the risk that JIBAR discontinuation will create sudden market disruption?

- Almost all respondents indicated that there are no fallbacks in place
- One respondent noted the standard “market disruption” clauses found in JIBAR-linked bonds, loans and derivative contracts

Qualitative Survey feedback
Pillar 2 – Adoption in cash/other markets

4.9 Does the South African market have products that may fall into the category of “tough legacy” contracts that cannot be transitioned to the successor rate? What are these products and what are the reasons for this characterization (political or practical)?

The following products were noted as possibly qualifying as “tough legacy” (either due to the nature of contracting party or product/legal complexities)

- JIBAR linked stock would require consent solicitation absenting robust fallback language.
- Multi-lender agreements
- Bonds with high thresholds
- Defaulted clients
- Structured notes
- Securitisations where the underlying is on legacy benchmark
- REIPPP contracts and other concession and PPP financing arrangements may fall into this category, these are long term and some may be linked to government guarantees and are linked to multiple parties with different objectives
- Corporate bonds and loans

Qualitative Survey feedback
Pillar 2 – Adoption in cash/other markets

4.10 Is there merit is having different dates for adoption of ZARONIA versus transition ie an earlier date for mandating the use of ZARONIA in new contracts and a later date for transition of legacy arrangements?

Overwhelmingly, respondents indicated that there is merit in this approach. Respondents noted:

- Transition could initially be for shorter dated products.
- May help to deal with legacy as reduces number of contracts to be reviewed. Need to consider WAL of positions in SA market
- It creates focus and allows the market to concentrate on one thing at a time.
- Dates need to be co-ordinated in a wholistic transition plan, however they do not need to coincide in order to be effective and spur market liquidity/adoption.
- If this approach is followed, hard definitive timelines would have to be in place for the transition to take effect for legacy arrangements. Commitment to moving to the successor rate would manifest through meeting deadlines.
- from an asset manager perspective if managing portfolios to a mandate, cannot have part of the fund linked to the new rate and part linked to old rates. The end date for conversion of legacy transactions is important

Qualitative Survey feedback
Pillar 2 – Adoption in cash/other markets

4.11 Is a "ZARONIA first" initiative necessary to foster market adoption? If so, when should such an initiative be formally commenced (after build-up of necessary liquidity through derivative market adoption, or as a necessary pre-condition to derivatives market adoption?)?

All respondents indicated that this would be necessary, but there is no agreement on timing. In respect of timing, respondents noted:

- after the building of liquidity depth.
- After build up of necessary liquidity through derivative market adoption (ie post Pillar 1)
- 2-3 years before derivative market adoption
- a necessary precondition. Waiting for liquidity through the derivative market adoption could bring about a wait and see approach to adoption, which might slow it.
- ZARONIA first might also prejudice the use of the other rates as they are introduced and compromise one of the aims of JIBAR reform, which is to limit reliance on a single rate.