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SOUTH AFRICAN RESERVE BANK

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Record of proceedings of the South African Foreign Exchange Committee virtual meeting held on Tuesday, 27 August 2024, from 10:00 to 11:30

Record of proceedings no. 03/2024

Members in attendance	Apologies
Zafar Parker (Chairperson), SARB Richard de Roos (Deputy Chairperson), Standard Bank Andries Tshishonga, SARB Bafundi Maronoti, SARB Lucy Mabuza (Secretariat of the SAFXC), SARB Chris Tsotsa (Secretariat of the SAFXC), SARB Lesego Malehopo, SARB Chris Paizis (Authorised Dealer), Absa Bank Limited Gerald Katsenga, ACI South Africa Atli Khaas, ACTSA Gill Raine, ASISA Gary Haylett, BASA Marius de Jongh (Observer), FSCA Paul Wilson (Interdealer Broker), ICAP Brice Parise (Authorised Dealer), JP Morgan Elaine Mabiletsa (Exchange), JSE Limited	Kumeran Govender (Authorised Dealer), Capitec Bank Carlos Martins, SAATA

1. Overview

The South African Foreign Exchange Committee (SAFXC) discussed the following during the meeting:

- 1.1 feedback from the Global Foreign Exchange Committee (GFXC) meeting; and
- 1.2 feedback from SAFXC members.

2. Summary of discussions

- 2.1 The GFXC discussions highlighted the following:
 - 2.1.1 The GFXC Global Index of Public Registers experienced an increase in statements of commitment in the first half of 2024, with 24 new market participants adhering to the FX Global Code (Code) and some central banks considering GFXC membership. The GFXC website was transferred to Swiss National Bank, but its ownership and management remained with the Bank for International Settlements (BIS).
 - 2.1.2 The GFXC was promoting awareness, adoption and adherence to the Code through the Proportionality Self-Assessment Tool, with the aim of improving transparency and access to foreign exchange (FX) market data as well as reducing FX settlement risks.
 - 2.1.3 The GFXC FX Settlement Risk Working Group announced amendments aimed at raising awareness among market participants about their responsibility to reduce FX settlement risk. The working group urged market participants to use payment-versus-payment mechanisms, introduced a risk waterfall concept and strengthened training language to reduce FX settlement risk. The BIS FX Triennial Survey had revised its FX settlement survey template and guidelines ahead of the April 2025 survey, adopting a new approach for FX data collection.
 - 2.1.4 Market participants in South Africa and the African continent were advised to monitor the FX Settlement Risk Working Group's developments and adopt real-time payment-versus-payment settlement systems to attract international investment. However, domestic markets did not face significant risks due to the South African rand settlement via continuous linked settlement (CLS).

- 2.1.5 The CLS had not adjusted the settlement cut-off time following US Securities' T+1 securities settlement in North America, as equivalent FX transactions settled on T+1 basis averaged 1% of CLS daily settlement value. According to the CLS survey, over half of respondent asset managers believed CLS could effectively reduce FX settlement risk without deadline adjustments or custodian cut-offs, confirming its suitability for FX settlement risk reduction.
- 2.1.6 The FX Data Working Group aimed to improve market transparency and accessibility for all participants by enhancing FX data transparency and ensuring openness in client-generated data on electronic trading platforms. A 2023 market poll revealed that market participants supported a future revision of the International Swaps and Derivatives Association's *FX and Currency Option Definitions*, with a final draft expected in November 2025 and implementation scheduled for 2027.
- 2.1.7 Artificial intelligence (AI) had significantly impacted the financial sector, offering new opportunities in credit scoring, asset allocation, risk management, stress-testing and predictions. However, it also posed risks, such as potential predatory activity and a herd-like mindset. Market players, including central banks and licensed dealers, must constantly monitor AI advancements to remain relevant and competitive in the rapidly developing financial landscape.
- 2.1.8 The revision to the Code would possibly include links to guidance papers on pre-hedging and last look. A survey showed that most local FX committees agreed to include these links and respondents preferred a disclaimer to clarify that the guidance papers were not part of the Code or the Statement of Commitment.
- 2.2 Feedback from SAFXC members
- 2.2.1 A workshop on the Code was held in Tanzania from 24 to 25 July 2024, where SAFXC representatives discussed the Code's principles, adoption, adherence, Proportional Self-Assessment Tool and the establishment of a local FX committee.
- 2.2.2 The Bank of Tanzania adopted the Code and published its own interbank FX code, based on the principles of the Code. The Tanzanian central bank officials highlighted the significance of the workshop to Tanzania's FX market, its role in promoting global market best practices and fostering knowledge exchange among Southern African Development Community central banks.
- 2.2.3 Tanzania's FX market had experienced transparency issues, a United States dollar

(US\$) liquidity shortage and a parallel exchange rate regime. Transparency issues arose from fragmented markets and opaque pricing, making optimal execution difficult. The banking sector's subjective allocation of US\$ liquidity complicated the order book mechanism for allocating liquidity. However, the GFXC had entrusted the SAFXC with the task of promoting the Code in the African region and fostering an efficient FX market.

- 2.2.4 The GFXC representative presented on the adoption of the Code to the Committee of Central Bank Governors' Financial Markets Subcommittee in Lesotho from 13 to 15 August 2024. The Code's principles, adoption roadmap, benefits, adoption process and the Self-Assessment Proportionality Tool were discussed.
- 2.2.5 The Association of Corporate Treasurers of Southern Africa (ACTSA) and the Association for Savings and Investment South Africa (ASISA) were tasked with assessing the evolution of buy-side adoption of the Code. They were urged to seek feedback from big corporates and asset managers that have adopted the Code to influence other buy-side institutions to adopt it.
- 2.2.6 ASISA had proposed a discussion on cross-currency swaps under South African Rand Overnight Index Average fixing, with representatives from the South African Reserve Bank and the Derivatives Workstream expected to present at the next SAFXC meeting.

3. Date of the next meeting

- 3.1 The next SAFXC meeting was scheduled for Thursday, 7 November 2024.

Abbreviations

ACTSA	Association of Corporate Treasurers of Southern Africa
AI	artificial intelligence
ASISA	Association for Savings and Investment South Africa
BASA	Banking Association South Africa
BIS	Bank for International Settlements
CLS	continuous linked settlement
FSCA	Financial Sector Conduct Authority
FX	foreign exchange
GFXC	Global Foreign Exchange Committee
JSE	JSE Limited
SAATA	South African Association of Treasury Advisors
SADC	Southern African Development Community
SAFXC	South African Foreign Exchange Committee
SARB	South African Reserve Bank
SNB	Swiss National Bank