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SOUTH AFRICAN RESERVE BANK

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## Record of proceedings of the South African Foreign Exchange Committee meeting held on Thursday, 20 June 2024 at 10:00–11:30 at the South African Reserve Bank

### Record of proceedings no. 02/2024

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 Kumeran Govender (Authorised Dealer), Capitec Bank Marius de Jongh (Observer), FSCA Paul Wilson (Interdealer Broker), ICAP Brice Parise (Authorised Dealer), JP Morgan Elaine Mabiletsa (Exchange), JSE Limited Carlos Martins, SAATA	Gerald Katsenga, ACI South Africa Atli Khaas, ACTSA Gill Raine, ASISA Gary Haylett, BASA
<b>Invitees:</b> Molefe Lenyai, Rand Merchant Bank	

## 1. Overview

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

- 1.1 presentation on USDZAR non-deliverable forward (NDF) contracts; and
- 1.2 feedback from SAFXC members.

## 2. Summary of discussions

2.1 The presentation on USDZAR NDF contracts highlighted the following:

- 2.1.1 The ZAR NDFs had gained interest in domestic foreign exchange (FX) markets due to offshore participants' interest in USDZAR futures. The demand for ZAR NDFs was driven by weak domestic market sentiment linked to South Africa's greylisting status, sub-investment sovereign rating and poor sovereign outlook. Interest in trading ZAR NDFs resurfaced during financial market stress or global uncertainty, with offshore counterparties primarily concerned about settlement risk rather than mark-to-market risk.
- 2.1.2 The NDFs were similar to standard forward contracts but without physical currency exchange upon maturity. Settlement was usually in US dollars. Pricing was primarily determined by an interest rate parity formula, but other factors like foreign exchange regime changes, local interest rate markets and offshore-onshore currency forward markets also influenced pricing.
- 2.1.3 The NDFs were primarily traded in non-convertible currencies, primarily used in developing and emerging market countries with significant cross-border capital flows. As of June 2024, LCH ForexClear recorded volumes of ~US\$1.4 trillion for the Brazilian real, US\$2.2 trillion for the Indian rupee, US\$1.8 trillion for the Korean won and US\$3 billion for the South African rand.
- 2.1.4 The NDFs benefitted currencies with convertibility restrictions, but South Africa did not fall into this category. If convertibility became a concern or threat, NDFs' use would be strengthened.
- 2.1.5 The limitations of NDFs included their sole protection against fluctuations in the fixing exchange rate for a local currency. This rate was typically established by onshore authorities through local spot market trading. Consequently, NDFs could

not guarantee that contract holders would be able to trade FX at the fixing rate. The NDF market also carried risks like speculative trading, increased market dislocation and potential dysfunction during periods of uncertainty and financial stress.

2.1.6 A thorough study was recommended to evaluate the necessity and potential of NDFs in enhancing the South African FX market's operations.

## 2.2 Feedback from SAFXC members

2.2.1 The SAFXC responded positively ('YES') to all four questions<sup>1</sup> on the Global FX Committee's (GFXC) pre-hedging questionnaire.

2.2.2 SAFXC was planning a two-day workshop on 25 and 26 July 2024 on the FX Global Code with the Bank of Tanzania as part of its outreach programme in the Southern African Development Community (SADC) region.

2.2.3 The South African Association of Treasury Advisors (SAATA) was redefining its membership criteria and charter with the aim to introduce licensing requirements for crypto asset service providers. The initiative aimed to promote ethical practices and professionalism among its members. SAATA had requested SAFXC to arrange a workshop for its members in October or November 2024.

2.2.4 The JSE was granted an approval to enhance its African currency offerings through a partnership with banks. However, technical difficulties due to undersea cable disruptions had hindered access to reference exchange rates and accurate rate fixes. To address this, the JSE was integrating dual lines to Bloomberg and Refinitiv, aiming to improve reliability and expand currency pairs.

## 3. Date of the next meeting

The next SAFXC meeting was scheduled for Tuesday, 27 August 2024.

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<sup>1</sup> The four questions were:

1. Does your LFXC agree to include a link to the Guidance Paper on Pre-hedging in the Code?
2. Does your LFXC consider that the link to the Guidance Paper on Pre-hedging should be accompanied by a disclaimer clarifying that GFXC's supporting materials are not part of the Code nor subject to the Statement of Commitment?
3. Does your LFXC support a review of the Disclosure Cover Sheets to further clarify the use of Pre-hedging in FX trading by liquidity providers?
4. Does your LFXC support include disclosure of Pre-hedging practices in the Disclosure Cover Sheets for platforms?

**Abbreviations**

ACTSA	Association of Corporate Treasurers of Southern Africa
ASISA	Association for Savings and Investment South Africa
BASA	Banking Association South Africa
FX	foreign exchange
GFXC	Global Foreign Exchange Committee
JSE	JSE Limited
NDF	non-deliverable forward
SAATA	South African Association of Treasury Advisors
SADC	Southern African Development Community
SAFXC	South African Foreign Exchange Committee
SARB	South African Reserve Bank
USD	US dollar
ZAR	South African rand