



South African Reserve Bank

**Record of proceedings of the Financial Markets Liaison Group (FMLG) meeting
held at the Head Office of the South African Reserve Bank (SARB), Pretoria,
5 May 2015**

Members who attended	Attendance by invitation	Apologies from members
Daniel Mminele, (Chairperson), SARB Videshree Rooplall, (Secretary) SARB Josina Solomons, (Co-Secretary), SARB Leon Myburgh, SARB Callie Hugo, SARB Tom Khosa, SARB Anthony Julies, National Treasury Mike Harvey, Absa Bank Garth Klintworth, Absa Bank Andries du Toit, FirstRand//RMB CJ Giddy, FirstRand / RMB John Chemaly, Nedbank Peter Lane, Nedbank William Van Rijn, Nedbank Arno Daehnke, Standard Bank Stuart Leslie, Standard Bank Clive Sindelman, Investec Bank	James Cross, SARB Bertus van Zyl, SARB Bafundi Maronoti, SARB Johan Redelinghuys, National Treasury Bhulesh Singh, FirstRand / RMB Richard de Roos, Standard Bank Bryan Smither, Deutsche Bank Jon Cornfield, Deutsche Bank	Tim Masela, SARB Peter Wharton-Hood, International Banking Association Richard Wainright, Investec Bank Andrew Hall, Standard Bank Roy Havemann, National Treasury

Summary of discussions

1. General

- 1.1 The Foreign Exchange Review Committee submitted an updated draft Code of Conduct for the South African Over-the-Counter financial markets to FMLG members. FMLG members were requested to appoint people to join the Foreign Exchange Drafting Committee, which would be responsible for providing input into the envisaged Code.
- 1.2 Concerns were raised around a proliferation of existing market committees and representation in such committees. A mapping of existing market committees would be done to determine opportunities for streamlining the different market committees.
- 1.3 A presentation was made by a bank on the interaction between the Liquidity Coverage Ratio (LCR), the higher money market shortage, African Bank Investment Limited (ABIL), money supply and liquidity spreads. The issues raised would be deliberated further in the FMLG subcommittees.
- 1.4 A presentation was made by a bank on the impact of global regulation on markets. The Group of Twenty (G20) had been the main driver of regulatory reform post the financial crisis.

2. Feedback from subcommittees

2.1 The Money Market Subcommittee (MMS)

- 2.1.1 Reviews of the Johannesburg Interbank Average Rate (Jibar) and South African Benchmark Overnight Rate (Sabor) Codes of Conduct

- (i) The Financial Services Board (FSB) conducted an IOSCO gap analysis on the Jibar Code of Conduct and the results were incorporated in the revised Code of Conduct tabled at the meeting. The revised Jibar Code of Conduct would be published on the Bank's website in due course.
- (ii) On the overnight rate, Swift had presented a possible solution for capturing actual interbank trades and calculating an unsecured interbank reference rate. A workshop would be held to consider the feasibility of such a proposal.
- (iii) In general, the review of benchmark rates focused on the Official Sector Steering Group (OSSG) proposals to enhance the credibility of broader money-market reference rates.

2.1.2 Committed Liquidity Facility (CLF): Some banks have applied for the CLF and paid the required commitment fees. Finalised collateral has been pledged with the SARB in terms of the Addendum to the Operational Notice.

2.1.3 New liquidity management strategy: The Bank continued to implement the liquidity management strategy as was announced in August 2013. In terms of this strategy, the SARB would allow trend changes in the monetary base to be reflected in the shortage.

2.1.4 Development of a standardised money-market yield curve: The Johannesburg Stock Exchange (JSE) has completed a draft document on formulas for the standardised money-market yield curve. Further meetings would be held between ASISA and banks to reach consensus and finalise the issue on the use of these proposed formula for valuation purposes.

2.1.5 Feedback from the Reference Rate Oversight Committee (RROC)

- (i) The commercial banks' compliance with the Jibar Code of Conduct was discussed. The banks do comply with the Jibar Code of Conduct.

- (ii) The SARB continued to monitor and analyse banks' funding structures and the impact of Basel III regulation on bank's funding, as well as on domestic reference rates, especially Jibar.

2.1.6 Feedback from the Liquidity Forum meetings

- (i) Calculation of daily liquidity requirement: Banks were urged to adhere to the rules and principles of utilising cash reserve accounts in squaring-off their daily liquidity positions. The requirement is that if a bank used cash reserves to fund their short position or deposit surplus funds, it must adjust its cash reserves balances accordingly the next day by 09:00.
- (ii) End-of-day square-off: Challenges encountered at the end-of-day square-off were mentioned again as major banks, in particular, are forced to use their cash reserves balances when short cash or borrow from the standing facility repo at a penalty rate, while other banks leave balances on their settlement accounts. Proposals to address these concerns would be considered by the Bank.
- (iii) Impact of SADC Integrated Regional Electronic Settlement System (SIRESS) balances on liquidity: While it was stated that balances in SIRESS at the end-of-day were swept out on a daily basis, some foreign central and commercial banks continue to leave balances in their SIRESS accounts. In some instances, balances remained on SIRESS due to technical problems with the system.

2.2 *Fixed Income & Derivatives (FI&D) Sub-committee*

- (i) Development of a hedging product for ZAR Overnight Index Swap (OIS): Insight was provided into USD OIS hedging products. The committee agreed that if a hedging product was developed and available it would provide benefit in hedging ZAR OIS risk.

2.3 Foreign Exchange (Forex) Subcommittee

- (i) The Code of Conduct for the South African Rand Fixing: The ACI Model Code was endorsed by the European Central Bank (ECB) and was being adopted by the more traditional banks and the buy-side community, which promoted a level playing field for the market. Work has started in consultation with the FSB to enhance the Model Code as a Model Code for the domestic market.
- (ii) Other issues that were discussed included risk neutralisation of open exposures in the foreign exchange futures market on close-out date and the apparent decline in liquidity of the forward foreign exchange market.

Enquiries

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