



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,
28 October 2015**

Members who attended	Attendance by invitation	Apologies from members
Daniel Mminele, (Chairperson), SARB Videshree Rooplall, (Secretary) SARB Josina Solomons, (Assistant Secretary), SARB Callie Hugo, SARB Charles Nevhutanda, SARB Roy Havemann, National Treasury Garth Klintworth, Absa Bank Andries du Toit, FirstRand/RMB Theo Thomas, FirstRand/RMB John Chemaly, Nedbank Peter Lane, Nedbank William Van Rijn, Nedbank Arno Daehnke, Standard Bank Stuart Leslie, Standard Bank Clive Sindelman, Investec Bank	Edward Leach, SARB Craig Zaayman, SARB Johan Redelinghuys, National Treasury Bryan Smither, IBA	Leon Myburgh, SARB Tom Khosa, SARB Tim Masela, SARB Anthony Julies, National Treasury Mike Harvey, Absa Bank Peter Wharton-Hood, IBA Richard Wainright, Investec Bank Andrew Hall, Standard Bank

Summary of discussions

1. General

1.1 Report of the Foreign Exchange Review Committee (FXRC) and draft Code of Conduct for Over-the-Counter financial markets (the Code) in South Africa.

- (i) The Committee noted feedback provided by the Chairperson on the press conference to release the report of the FXRC, and to release of the Code for public comment.

One of the Foreign Exchange Review Committee's recommendations relevant for the FMLG relates to the formation of Financial Markets Standards Group comprising a group of senior market professionals and compliance officers, together with the SARB and FSB, that will ensure ongoing compliance and best practice. The FMSG will be responsible for setting benchmark standards for compliance, training and certification of management, seeking to resolve market issues such as conflict and ambiguity and keeping abreast of international developments by interacting with similar groups in other countries. The FMSG will also be responsible for regularly updating the Code. It was agreed that appropriate structures involving relevant parties would be put in place to give effect to the recommendations.

- (ii) The Code would remain open for public comment until 30 November 2015. A special FMLG meeting would be convened at a later stage in order to deliberate on any comments received from the public as well as to finalise the Code, subsequent to which the Code would be launched officially.

1.2 Committee mapping project:

- (i) The Financial Markets Department (FMD) of the SARB gave feedback on a committee map it had, reflecting committees under the auspices of the SARB, National Treasury (NT), Financial Services Board (FSB) and Banking Association of South Africa (BASA). Information on FSB committees was obtained from their Annual Report. The institutions responsible for infrastructure and trading platforms such as the Johannesburg Stock Exchange (JSE) and State were also requested to assist, while information from websites from some of the major financial market participants was also used. The aim of the committee map is to facilitate consultation with relevant stakeholders to see where the market committee structures can be streamlined and the efficiency of their operations enhanced.

1.3 SAMOS replacement project

- (i) The National Payments System Department of the SARB provided feedback on the SAMOS replacement project.
- (ii) The project was progressing according to the project plan. SWIFT provided a proposal on the Market Infrastructure Resilience Service (MIRS). A workshop in this regard was planned, where SWIFT would work through the current message flows so that there was a clear understanding on how the solution would work for SAMOS to enable the team to make firm recommendations.

1.4 Covered bonds

- (i) A presentation was made on the possible introduction of covered bonds in South Africa, highlighting the key features from a policy aspect and strategic systemic approach, as well as specific issues to be addressed for the South African market. The Funding Model Workgroup was in discussions with Association for Savings and Investment South Africa (ASISA) on the pricing of covered bonds while legal and quantitative modelling teams were

assessing the different covered bond models and the impact on the Net Stable Funding Ratio (NSFR). It was envisaged that the introduction of covered bonds in South Africa could take place in about two to three years' time from now. It was stressed that opportunities to shorten this envisaged time lime be explored.

2. Feedback from subcommittees

2.1 The Money Market Subcommittee (MMS)

2.1.1 Review of the Johannesburg Interbank Average Rate (Jibar) Code of Conduct. The revised Jibar Code of Conduct was implemented on 31 August 2015. Based on the surveillance by the SARB, all contributing banks had complied with the Jibar Code of Conduct thus far.

2.1.2 Jibar review project. Letters were sent to the 5 major banks requesting data on their funding activities. This forms part of a project to revise Jibar as the key reference rate in the domestic market. The intention is to use the data to find a representative sample of funding instruments. Data on daily funding volumes from 1 May 2015 to 31 October was requested. The FMD was awaiting the final batch of data and was in the process of analysing the data.

2.1.3 Calculation of benchmark overnight reference rates. The Bank had made preliminary proposals for discussion purposes on the calculation of specific reference rates, which will reflect secured (risk-free) and unsecured rates. The objective was to calculate multiple rates as proposed by the Official Sector Steering Group (OSSG) and for the rates to comply with the International Organization of Securities Commissions (IOSCO) principles. The proposals are in line with the OSSG recommendations to enhance the credibility of broader money-market reference rates. However, there remains a challenge with regard to compliance with the IOSCO principles on surveillance, validation, etc. The next steps would be for the Reference Rate Working Group (RRWG) to incorporate the IOSCO principles and, once agreed upon with banks, a date for a workshop

with SWIFT would be proposed.

- 2.1.4 Development of a money-market yield curve. A meeting was held between the Bank, ASISA, Strate and representatives from the major banks to discuss the development of a money-market yield curve. It was resolved that the existing 12-month Jibar curve would be used by ASISA members for valuation. However, the JSE would add NCD maturities of up to 3 years to extend the Jibar curve. There was no need to change the Jibar Code of Conduct for this purpose.
- 2.1.5 The Fair and Effective Markets Review Final Report of the Bank of England would be taken to the next Money-Market Subcommittee meeting, where the FSB would facilitate a discussion.

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

- 2.2.1 Local Central Counterparty (CPP) solution: The committee reviewed ongoing discussion in relation to suggestions and alternatives for a local CCP solution. It appeared the preferred option from stakeholder was for an offshore CCP with local representation. Despite this being an expensive option in terms of required clearing member status, the local market may have limited choices, as it was not advisable to have a split between local and offshore positions. One specific offshore provider appeared to be the preferred solution. Members agreed that there was a need to lobby for an option with local currency initial margin as it made no sense to have USD initial margin on ZAR products.

2.3 *Foreign Exchange (Forex) Subcommittee*

- 2.3.1 At a meeting held on 5 October 2015 hosted by the JSE and relevant stakeholders, there was a proposal for the JSE to facilitate a “closed auction process” for USD/ZAR futures at the quarterly currency futures close-out. The proposal was circulated to the various banks and their compliance departments for approval, with the intention of submitting it to the Financial Surveillance Department of the Bank by 2 November 2015 for consideration.

2.4 Funding Model Workgroup

2.4.1 Electronic Trading Platform (ETP) project for South African government bonds. The NT and JSE had reached an agreement to select the lower cost vendor option. A meeting was to be held with the JSE on 29 October 2015 to finalise funding issues.

Enquiries

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