



South African Reserve Bank

**Record of proceedings of the Financial Markets Liaison Group meeting held at the South African Reserve Bank, Pretoria,
17 October 2016**

1. Overview

- 1.1 At the meeting, progress reports by the subcommittees and working groups of the Financial Markets Liaison Group (FMLG) were tabled by members.
- 1.2 Both the Money Market Subcommittee (MMS) and Reference Rate Working Group (RRWG) held meetings on 25 July 2016, while the latter also met on 28 September 2016. The Fixed Income and Derivatives Subcommittee (FI&DS) met on 19 July 2016, while the Foreign Exchange (FX) Subcommittee held its meeting on 28 September 2016.

2. Summary of discussions

2.1 Long-term implications of a possible sovereign credit rating downgrade on insurers' exposure to South African banks

- 2.1.1 The issue was raised that under the solvency assessment and management (SAM) regulation for insurers, the local and foreign currency ratings were important determinants of the amount of capital to be held for exposures to banks. The meeting discussed the possible implications of a downgrade for insurers' treatment of exposures to banks.

2.2 Feedback from the MMS and RRWG

2.2.1 Supplementary auctions

- i. After the reintroduction of supplementary auctions in March 2016, banks were not fully utilising the facility. However, during consultations with the banks, the SARB clarified what factors were considered when supplementary auctions are offered. Since then, the participation rate has increased.

2.2.2 Calculation of credible benchmark money-market rates

- i. The RRWG, under the auspices of the MMS, continued to deliberate on the calculation of credible benchmark money-market rates to enhance transparency and pricing in the money market, in line with the Official Sector Steering Group's (OSSG) proposals. The objective is to devise secured and unsecured overnight rates, as well as secured and unsecured risk-free and risk-inclusive curves for money-market rates.

2.2.3 Johannesburg Interbank Average Rate (Jibar) review project

- i. Based on the outcome of the banks' data collection project conducted in 2015/16, banks were requested to submit proposals on how to revise and improve Jibar. Consequently, a proposal to consider the calculation of a deposit curve was presented, which would include deposits ranging from overnight deposits to 3-month deposits.
- ii. The progress with benchmark reform has been slow. The SARB will draft a consultation paper on reference rate reforms in the domestic market. The SARB's consultation paper will cover, among other things:
 - a. clarity on the definition of the broad range of benchmark rates;
 - b. purpose and use of each benchmark rate;
 - c. collection methodology;
 - d. calculation methodology; and
 - e. transition to new benchmarks.

2.2.4 Enhancing the liquidity in the Treasury bill market

- i. A discussion was held regarding price discovery and liquidity in the Treasury bill (TB) market and certain proposals were considered, which will form part of further work to be undertaken between market participants, Strate, the SARB and National Treasury.

2.2.5 Republication of Jibar

- i. At the previous FMLG meeting in May 2016, it was agreed not to republish Jibar after its daily release at 10:00. However, at the RRWG meeting it was proposed that the matter be reconsidered and that the domestic practice should be aligned with international practices of reference rate error correction. It was proposed that, where a calculation error has been made, the Jibar Code of Conduct should cater for the recalculation and republishing of Jibar. It was further proposed that the revision of Jibar should only occur if a material amendment had been made. A cut-off time of 10:30 for the republication of Jibar was proposed. The proposal is still under discussion.

2.3 Feedback from FI&DS

- i. Feedback was given that the JSE Limited (JSE) had raised a concern following the listing of swap futures products, as transactions volumes in these products had remained low. The committee discussed the issue of credit valuation adjustment (CVA) charges on listed swap futures and the impact on the new counterparty credit capital regulations. This was regarded as the major obstacle to trading this product.
- ii. An update was provided relating to the progress with designing an overnight risk-free benchmark rate that would be suitable for derivatives and could be considered to eventually replace the South African Futures Exchange (SAFEX) rate as well as the rate that is referenced in the Collateral Support Annex (CSAs). This process has been challenging and progress appeared to be slow. This rate would be vital in developing an overnight index swap (OIS) market. This will be covered in the SARB consultation paper discussed above (paragraph 2.2.3 (ii)).

2.4 Feedback from the FX Subcommittee

- i. The JSE had been approached to include ZAR/AUD as a currency pair for inclusion in the currency FX futures close-out auction. This proposal is still being reviewed by the SARB.

- ii. The JSE confirmed that it had launched the 'forward-forward' FX contract. This product had been approved by all the relevant parties.

2.5 Feedback from the Bond Market Development Committee

- i. The primary dealers (PDs) tabled proposals for the exchange-traded platform (ETP) settlement assurance. The proposal was aimed at enhancing liquidity by mitigating settlement risk, and making the cost of credit risk in the settlement cycle transparent and explicit. While the majority of the PDs were comfortable with the proposal, there remains a risk that the number of PDs in the market might decrease. All the proposals tabled by the PDs are being reviewed.

3. Appointments

- i. Mr Yeshveer Koobair (Barclays Capital) was nominated as the Chairperson of the FI&DS Committee and will replace Mr Stuart Leslie when his term expires at the end of December 2016.
- ii. Mr Dave Gracey (Investec) was nominated as the Chairperson of the FX Committee and will replace Mr Willian van Rijn when his term expires at the end of December 2016.
- iii. Mr Muner Ismail attended as the Chairperson of the International Banking Association. He took over from Mr Peter Wharton-Hood.
- iv. Annexure A reflects the attendance at the meeting.
- v. Mr Edwin Makgopa has been appointed as Secretary of the FMLG. He took over from Ms Josina Solomons.

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Secretary of the FMLG

Annexure A

Attendance of the FMLG meeting on 17 October 2016

Attendance by members	Attendance by invitation	Apologies from members
Daniel Mminele (Chairperson), SARB Josina Solomons (Secretary), SARB Leon Myburgh, SARB Callie Hugo, SARB Charles Nevhutanda, SARB Edwin Makgopa, SARB Johan Redelinghuys, National Treasury Roy Havemann, National Treasury Andries du Toit, FirstRand/RMB Theo Thomas, FirstRand/RMB David Kinsey, Standard Bank Stuart Leslie, Standard Bank Lourens van Rensburg, Investec John Chemaly, Nedbank George Kerby, Nedbank William van Rijn, Nedbank Muneer Ismail, International Banking Association Garth Klintworth, Absa Capital	Parin Gokaldas, Absa Capital	Tim Masela, SARB Clive Sindelman, Investec Deon Raju, Absa Capital