



South African Reserve Bank

Financial Markets Department

Record of proceedings of the Financial Markets Liaison Group meeting held at the South African Reserve Bank in Pretoria on 30 May 2018

1. Overview

- 1.1 The following key issues were discussed at the Financial Markets Liaison Group (FMLG) meeting:
 - 1.1.1 Developments in global financial markets since the November 2017 FMLG meeting.
 - 1.1.2 Presentation by Strate on the Equities BaNCS (the migration of equity securities) Project.
 - 1.1.3 Amendment of the FMLG's terms of reference (ToR).
 - 1.1.4 Placement of margin money of the Electronic Trading Platform (ETP) as a deposit with the Corporation for Public Deposits (CPD).
 - 1.1.5 Progress reports from the FMLG subcommittees and the South African Foreign Exchange Committee (SAFXC), as tabled by the respective chairpersons.

2. Summary of discussions

2.1 Recent developments in financial markets and year-end feedback

- 2.1.1 The Chairperson opened the meeting with a brief review of recent global and domestic financial markets developments. Since February 2018, US bond yields increased amid the possibility that the pace of monetary policy normalisation might

be faster than previously anticipated. As a result, riskier assets such as emerging market currencies, equities and bonds weakened. Trade tensions, geopolitical risks, higher oil prices, and political developments in Italy also raised the level of uncertainty in global financial markets. Domestic financial markets had been mostly influenced by international developments, with currency depreciation and increased volatility influencing other market segments.

2.1.2 At the time of the November 2017 FMLG meeting, local markets were faced with elevated risks and the FMLG considered various risk scenarios that could play out into the year end, possibly affecting the smooth functioning of the market during that period. Key risk events that were expected to unfold during December 2017 included the credit rating review by Moody's rating agency and the outcome of the elective conference of the African National Congress (ANC) in mid-December 2017. A credit rating downgrade of South Africa's local currency debt to sub-investment grade by Moody's would have resulted in domestic government bonds being excluded from Citigroup's World Government Bond Index, with subsequent bond outflows.

2.1.3 Market conditions improved after Moody's rating agency confirmed South Africa's local currency credit rating at BBB+ and the outcome of the ANC's elective conference was well received by investors.

2.2 **Presentation by Strate on the Equities BaNCS Project**

2.2.1 In 2012 Strate made a strategic decision to commence with a new information technology (IT) roadmap which encompassed consolidation of all its different custodians and settlement platforms into a single state of the art platform that is known as the Strate's TCS BaNCS MI platform¹.

2.2.2 Strate had completed the first two phases of the new IT roadmap, with the first phase being the migration of money market securities. The second phase entailed the migration of bond securities – a project referred to as Debt Instrument Solutions (DIS). Recommendations from an independent review pertaining to challenges

¹ Tata Consulting Services BaNCS Market Infrastructure platform

encountered with the implementation of DIS were being implemented in phases and progress had been reported to the boards of Strate, JSE Limited (JSE) and the Financial Sector Conduct Authority (FSCA).

2.2.3 At present, Strate was implementing the third and final phase of the project, which involved migration of equity securities (Equities BaNCS Project) to the TCS BaNCS MI platform. Since Strate would not amend the settlement model, it expected the migration of equity securities to be easier than the migration of bond securities. However, the project on migrating equity securities could be complicated since Strate had to migrate settlement on five exchanges, being 4AX, A2X, Eese, JSE and ZARX.

2.2.4 The project had been estimated to go live by the third quarter of 2019.

2.2.5 The JSE was expected to make an announcement about the ETP, which would go live at the end of June 2018, pending the approval of ETP rules by the FSCA. Strate had completed its tests for the implementation of the ETP and primary dealers were expected to test their systems on 2 June 2018.

2.3 **Amendment of the FMLG's terms of reference**

2.3.1 The FMLG's ToR was amended to reflect that its foreign exchange subcommittee would cease to exist as its functions would be migrated to the SAFXC.

2.4 **Placement of margin money of the ETP as a deposit with the CPD**

2.4.1 The CPD Board of Directors (Board) agreed on the modalities of opening individual accounts with the CPD by the JSE on behalf of the nine primary dealers. It was noted that since these accounts would be opened in the name of non-public entities, the Corporation for Public Deposits Act 46 of 1984 requires the Chairperson of the CPD Board to obtain permission from the Minister of Finance. The request had been submitted to the Minister of Finance and a response was awaited.

2.5 **Feedback from the Money Market Subcommittee and Reference Rate Working Group**

2.5.1 Consultation paper on reference rate reform

The consultation paper on interest rate benchmarks in South Africa was submitted to the Governors' Executive Committee (GEC) of the South African Reserve Bank (SARB) and had been approved for publication, subject to some final editing. Market participants would have two months to submit comments on the consultation paper. Once the paper had been published, a Market Practitioner Group (MPG) would be established to operationalise the proposals.

2.5.2 Accommodating US dollar in the South African Multiple Option Settlement

In 2017, banks requested the National Payment System Department (NPSD) to consider accommodating US dollar in the South African Multiple Option Settlement (SAMOS) system and consequently the NPSD established a working group. The working group could not find a business case for the inclusion of US dollar in SAMOS. However, following further discussions at the FMLG meeting, banks were invited to make submissions to the NPSD on this subject.

2.5.3 Extension of money market yield curve

In 2014, the Association for Savings and Investment South Africa (ASISA) requested the Money Market Subcommittee (MMS) to investigate the calculation of a money market yield curve. At one of the FMLG meetings, the urgency of finalizing the proposal for the calculation of the money market yield curve beyond 12-months – as the FSCA needed to make reference to the details of the extended yield curve in its regulation – was emphasised. However, progress was slow owing to banks holding different views on the extension of the money market yield curve. Banks were, however, encouraged to find a common ground in order for the process to be completed.

2.5.4 Committed Liquidity Facility

The MMS discussed the possibility of further developing the secured interbank market. From the discussions, there were suggestions to expand the pool of eligible assets for the Committed Liquidity Facility and the SARB's main refinancing auction. Banks were requested to submit proposals to the SARB for assets that could potentially be considered for this purpose. The challenge was to free up collateral that could be used in the secured interbank market.

2.5.5 SADC Integrated Regional Electronic Settlement System balance

Banks requested the SARB to consider the inclusion of the SADC Integrated Regional Electronic Settlement System (SIRESS) balance in the calculation of the threshold amount, when the offering of supplementary square-off facilities was considered. The SARB was evaluating various options for the inclusion of SIRESS balances for this purpose.

2.5.6 Overbidding in the SARB's main refinancing auction

One of the issues discussed at the MMS meeting was the overbidding during the SARB's main refinancing auction. The FMLG noted that while such overbidding did not pose any risk for the implementation of the monetary policy, there was a risk for the banks. Banks needed to post collateral against their successful bids and in a case where a bank had artificially inflated its demand, the bank may be short of collateral.

2.6 Feedback from the Fixed Income and Derivatives Subcommittee

2.6.1 The Fixed Income and Derivatives Subcommittee (FI&DS) would collaborate with the MMS on the reference rate project.

2.6.2 The London Clearing House (LCH) aligned the local derivatives market to the single period swaps instead of the forward rate agreements as requested by the FI&DS. The next step was to encourage local asset managers to embrace the single period swaps as a trading mechanism.

2.6.3 At present, the LCH allowed the clearing of ZAR derivatives with maturities of up to 10 years. The FI&DS engaged with the LCH to extend the maturity of ZAR clearable swaps to beyond 10 years and the LCH confirmed that the matter would be tabled for discussion at its meeting scheduled for June 2018.

2.7 Feedback from the Bond Market Development Committee

2.7.1 Banks enquired about the processes and timelines around the Resolution Bill. The SARB undertook to establish the status of the Resolution Bill and give feedback to the banks.

2.8 Feedback from the SAFXC

2.8.1 The SAFXC was launched on 13 March 2018. Mr Zafar Parker, Senior Manager: Market Intelligence and Operations, SARB was elected as the Chairperson of the committee, with Mr David Gracey, Head: Currency and Derivatives Trading, Investec Bank elected as Deputy Chairperson, for a period of one year.

2.8.2 The ToR for the SAFXC was noted by the FMLG.

2.8.3 The SARB advised the FMLG that it had endorsed the FX Global Code and also published its Statement of Commitment (SoC) to demonstrate its commitment to the FX Global Code.

2.8.4 The SARB expected its counterparties in the FX market to adhere to the Global Code and to demonstrate their commitment by publishing their own SoCs in support of the integrity, effectiveness and efficiency of the domestic FX market. With effect from 1 September 2018, the SARB would only conduct FX transactions with those market participants that had publicly endorsed the FX Global Code through their own SoCs.

2.8.5 The 2018 SAFXC meeting dates were agreed upon. It was also mentioned that South Africa would be hosting the Global Foreign Exchange Committee meeting on 27 June 2018.

Enquiries:

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Secretariat of the FMLG

Attendance of the FMLG meeting on 30 May 2018

Members in attendance	Apologies from members
Daniel Mminele (Chairperson), SARB	Garth Klintworth, Absa Capital
Edwin Makgopa, (Secretariat), SARB	Theo Thomas, FirstRand
Taalya Phekun (Secretariat), SARB	Vikas Khandelwal, International Banking Association
Leon Myburgh, SARB	Clive Sindelman, Investec
Tim Masela, SARB	James Glover, Nedbank
Zafar Parker, SARB	Roy Havemann, NT
Callie Hugo, SARB	Andrew Hall, Standard Bank
Linda Motsumi, SARB	
Mukelani Nkuna, SARB	
Anthony Julies, National Treasury (NT)	
Petula Sihlali, NT	
Deon Raju, Absa Capital	
Yeshveer Koobair, Absa Capital	
Andries du Toit, FirstRand	
David Gracey, Investec	
Lourens Van Rensburg, Investec	
Warren Fourie, International Banking Association	
George Kerby, Nedbank	
Richard de Roos, Standard Bank	
David Kinsey, Standard Bank	
<u>By invitation</u>	
Annemarie Britz, SARB	
Beverly Furman, Strate	
Gregory Naicker, Strate	