



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 31 October 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 May 2018 FMLG meeting.
 - 1.1.2 Presentation by the JSE Limited (JSE) on the Integrated Trading and Clearing (ITaC) project.
 - 1.1.3 Presentation on South Africa's vulnerability to the United States (US) monetary policy normalisation.
 - 1.1.4 Deposit accounts for members of the Electronic Trading Platform with the Corporation for Public Deposits.
 - 1.1.5 Amendment of the FMLG's terms of reference (ToR).
 - 1.1.6 Progress reports from the FMLG subcommittees and the South African Foreign Exchange Committee (SAFXC) and feedback from the Financial Markets Review Committee (FMRC).

2. **Summary of discussions**

2.1 **Developments in global financial markets since the May 2018 FMLG meeting**

2.1.1 Volatility in global financial markets increased since the FMLG meeting in May 2018, influenced by, among other things, US-China trade tension, tightening global financial conditions and idiosyncratic developments in emerging markets.

2.1.2 The South African markets were negatively impacted by the increased global market volatility and traded in tandem with their global counterparts.

2.2 **Presentation by the JSE on the ITaC project**

2.2.1 The JSE presented on its ITaC solution project. ITaC is a multi-year programme aimed at migrating derivatives markets to a new trading and clearing platform, in phases.

2.2.2 Some of the future opportunities offered by ITaC included flexible and efficient margin offset and cross market margin optimisation, product innovation, centralised risk management, and single-client accounts. ITaC also included benefits associated with European regulations as the JSE provided data to European clients.

2.3 **South Africa's vulnerability to the normalisation of monetary policy in the US**

2.3.1 Some market participants were of the perception that South Africa ranked similar to Turkey in terms of vulnerability to normalisation of monetary policy in the US and, inter alia, an appreciating US dollar.

2.3.2 A country's vulnerability to the rising US interest rates and an appreciating US

dollar should be measured, at the very least, by using foreign-currency denominated exposure as an indicator.

2.3.3 While South Africa ranked poorly on macro-economic imbalances, the economy was well insulated from volatility in the exchange rate compared to several of its emerging market peers. The following factors were seen as counting in South Africa's favour:

- i. The banking system was not dollarized.
- ii. South Africa was a net foreign creditor.
- iii. South Africa had a sound regulatory policy framework and a prudent approach to the management of foreign reserves.
- iv. South Africa had a relatively large asset management industry which could absorb a sell-off of local bonds by non-residents.
- v. South Africa had deep and liquid financial markets.
- vi. The country's external debt was estimated at 50% of gross domestic product (GDP). However, the portion of external debt that was denominated in foreign currency was estimated at 21% of GDP, which ranked better relative to peer countries.

2.3.4 Using the above metrics, South Africa ranked in the middle, among a basket of 13 emerging market countries.

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

2.4.1 The FMLG's terms of reference were amended to state that central securities depositories and exchanges would be invited to the FMLG and Money-Market Subcommittee (MMS) meetings, on an ad hoc basis.

2.5 **Accounts for members of the Electronic Trading Platform with the Corporation for Public Deposits**

2.5.1 The Minister of Finance approved the opening of deposit accounts for Electronic Trading Platform (ETP) with the Corporation for Public Deposits. The accounts were opened and the ETP platform was fully operational.

2.6 **Feedback from the MMS and Reference Rate Working Group**

2.6.1 Consultation Paper on selected interest rate benchmarks

2.6.1.1 The Consultation Paper on selected interest rate benchmarks in South Africa was published on 30 August 2018. The window period for public comments was extended from 26 October 2018 to 30 November 2018. The South African Reserve Bank (SARB) would consider all public comments on the Consultation Paper and a final paper on benchmark reform in South Africa would be drafted in consultation with the Market Practitioners Group (MPG). It is envisaged that the final paper will be published during the second quarter of 2019. As recommended by the Consultation Paper, an MPG comprising of representatives from the SARB, the Financial Sector Conduct Authority (FSCA), Association for Savings and Investment South Africa (ASISA), the Banking Association of South Africa (BASA), the Association of Corporate Treasurers of Southern Africa (ACTSA) and the chairs of the respective work streams was established and had its inaugural meeting on 19 October 2018. The MPG was chaired by the Deputy Governor of the SARB: Markets and International.

2.6.2 The Treasury Bill Market Working Group

2.6.2.1 The National Treasury was in the process of drafting a working paper on improving liquidity in the secondary Treasury bill market. Once completed, the paper would be circulated to the Treasury Bill Market Working Group and thereafter be tabled at the MMS to discuss a way forward.

2.6.3 Extension of money market yield curve

2.6.3.1 The SARB agreed with commercial banks on draft operating rules which would govern the calculation of an extended Johannesburg Interbank Average Rate (Jibar) curve and that the extended Jibar curve would be transaction-based not quote-based. ASISA still needed to agree to the draft operating rules.

2.6.4 SADC Integrated Regional Electronic Settlement System balance

2.6.4.1 Commercial banks requested the SARB to take into consideration changes in the SADC Integrated Regional Electronic Settlement System (SIRESS) balances when deciding on the end-of-day supplementary facility. Following an internal analysis, the SARB informed members that it would not include changes in SIRESS balances as the daily changes were generally insignificant.

2.6.5 Committed Liquidity Facility

2.6.5.1 The SARB communicated, in Guidance Note 4/2018, the decision to commence with the phasing out of the Committed Liquidity Facility (CLF) over a period of three years. The decision to phase out the CLF was informed by the declining mismatch between the demand for and supply of High Quality Liquid Assets (HQLA), which had continued to decrease to such an extent that the continued provision of the CLF was unlikely to comply with the qualifying criteria set out in the Basel III LCR framework. Members of the FMLG requested that the SARB distribute to FMLG members its internal analysis which concluded that there was no longer a shortage of HQLA.

2.7 **Feedback from the Fixed Income and Derivatives Subcommittee**

2.7.1 The Fixed Income and Derivatives Subcommittee (FI&DS) discussed the Consultation Paper on interest rates benchmarks. Banks undertook to provide feedback to the SARB through BASA on the implications of the recommended interest rate benchmark for the derivatives market.

2.7.2 The FI&DS engaged the London Clearing House (LCH) in June 2018 to extend the tenor of clearable ZAR interest rate swaps. The LCH opted not to extend the tenor of swaps eligible for clearing.

2.7.3 The term for Mr Yeshveer Koobair as the Chair of the FI&DS came to an end in November 2018. The FI&DS nominated Mr Denvin Naidoo as the new Chair of the FI and DS.

2.8 **Feedback from the Bond Market Development Committee**

2.8.1 The ETP was successfully launched in August 2018.

2.9 **Feedback from the SAFXC**

2.9.1 South Africa hosted the Global Foreign Exchange Committee (GFXC) meeting in June 2018 and the SAFXC had two meetings since the meeting of the FMLG in May 2018.

2.9.2 The common theme from both GFXC and SAFXC meetings was the promotion of the global foreign exchange code across all jurisdictions.

2.10 **Feedback on the Financial Market Review Project**

2.10.1 The Financial Markets Review Committee (FMRC) held its last meeting on 30 October 2018. The final Financial Markets Review incorporating changes received in the public consultation process will be published in due course and be handed over to the Financial Markets Implementation Committee (FMIC) which would comprise of National Treasury, the Prudential Authority and FSCA.

Enquiries:

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Secretariat of the FMLG

Attendance of the FMLG meeting on 31 October 2018

Members who attended	Apologies
Leon Myburgh, (Acting Chairperson), SARB Edwin Makgopa, (Secretariat), SARB Taalya Phekun, (Secretariat), SARB Tim Masela, SARB Zafar Parker, SARB Callie Hugo, SARB Linda Motsumi, SARB Roy Havemann, National Treasury Deon Raju, Absa Capital Yeshveer Koobair, Absa Capital Bhulesh Singh, FirstRand David Gracey, Investec Lourens Van Rensburg, Investec Randall Habana, International Banking Association (IBA) George Kerby, Nedbank James Glover, Nedbank Paul Burgoyne, Standard Bank Stuart Leslie, Standard Bank	Daniel Mminele, (FMLG Chairperson), SARB Mukelani Nkuna, SARB Garth Klintworth, Absa Capital Theo Thomas, RMB Andries du Toit, FirstRand Vikas Khandelwal, IBA Clive Sindelman, Investec Anthony Julies, National Treasury Andrew Hall, Standard Bank David Kinsey, Standard Bank
<u>By invitation</u> Kim Silberman, Rand Merchant Bank (RMB) Leanne Parsons, JSE	