



Financial Markets Department

Record of proceedings of the Financial Markets Liaison Group meeting held at the South African Reserve Bank in Pretoria on 28 October 2019

1. Overview

1.1 The Financial Markets Liaison Group (FMLG) meeting discussed the following key issues:

- A presentation by ABSA on developments around the Secured Overnight Funding Rate (SOFR) in the United States (US) during September 2019 and the suitability of the US experience with reference rate reform as a case study for South Africa;
- The Fundamental Review Trading Book (FRTB); and
- Progress reports from the FMLG subcommittees and the South African Foreign Exchange Committee (SAFXC).

2. Summary of discussions

2.1 Presentation by ABSA on developments around the SOFR in the US and its suitability as a case study.

2.1.1 The liquidity pressures that led to a significant rise in the SOFR in September 2019 were attributed to the following factors:

- i. Corporate tax payments and US Treasury Bill issuances in September 2019;

- ii. The unintended consequences of a reduction in the Federal Reserve balance sheet (part of Federal Reserve Bank's policy normalisation);
- iii. Increased demand for leverage in the real economy;
- iv. Banks also kept excess reserves with the Federal Reserve Bank, which earned interest, in addition to the regulatory minimum requirement.

2.1.2 Some of the recommendations flagged for the South African market included:

- i. The need for market infrastructure to evolve for the smooth functioning of the money markets;
- ii. Enhancing monetary policy transmission information through additional benchmarks to enhance systemic risk monitoring and measurement.

2.2 Fundamental Review Trading Book (FRTB)

2.2.1 The FRTB was due to be introduced to address shortcomings in the market risk capital regime identified following the 2008 global financial crisis. The Prudential Authority (PA) acknowledged that the FRTB was not without limitations, more specifically on issues which were country specific. However, the process of review and consultation with banks had been ongoing for a number of years and the PA will continue to liaise with banks through the Banking Association Southern Africa (BASA), and invited banks to liaise bilaterally should they wish to do so.

2.3 Feedback from the Money Market Subcommittee (MMS) and Reference Rate Working Group

2.3.1 The finalisation of the SARB's technical specification paper on the reform of interest rate benchmarks would be delayed to the first quarter of 2020, when it would be discussed with the Market Practitioners Group and the SARB's formal approval processes.

2.4 Feedback from the Fixed Income and Derivatives Subcommittee

2.4.1 The Fixed Income and Derivatives Subcommittee (FI&DS) discussed the clearing of long-dated swaps. With the FRTB coming into play, the cost of trading long-dated swaps, if not cleared, will rise substantially.

2.5 Feedback from the Bond Market Development Committee

2.5.1 The Electronic Trading Platform (ETP) has been progressing well since its launch in July 2019. However, activity was concentrated in the R186 bond. In order to enhance activity, the ETP Market Committee was considering extending membership to additional market makers and adding instruments to the platform.

2.6 Feedback from the South Africa's Foreign Exchange Committee

2.6.1 The South Africa Foreign Exchange Committee (SAFXC) took various initiatives as part of the outreach programme aimed at creating public awareness and promoting the FX Global Code (Code) in the domestic and regional foreign exchange markets.

Enquiries:

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Secretariat of the FMLG

Attendance of the FMLG meeting 28 October 2019

Members who attended	
Fundi Tshazibana, (FMLG Chairperson), SARB	<u>Apologies from members</u>
Edwin Makgopa, (Secretariat), SARB	Tshepiso Moahloli, NT
Khethiwe Mavundla, (Secretariat), SARB	Roy Havemann, NT
Zafar Parker, SARB	Richard de Roos, (SAFXC)
Samantha Springfield, SARB	James Glover, Nedbank
Mukelani Nkuna, SARB	Vikas Khandelwal, IBA
Bafundi Maronoti, SARB	Clive Sindelman, Investec
Tim Masela, SARB	Andrew Hall, Standard Bank
Garth Klintworth, ABSA Capital	
Deon Raju, ABSA Capital	
Andries du Toit, FirstRand	
Denvin Naidoo, (FI&DS)	
Lourens van Rensburg, Investec	
George Kerby, Nedbank	
Johan Redelinghuys, NT	
Isabelle Mangazi, NT	
Theo Thomas, RMB	
David Kinsey, Standard Bank	
<u>By Invitation</u>	
Parin Gokaldas, ABSA Capital	
Faizel Jeena, Prudential Authority	