



**South African Reserve Bank**

## **Money Market Reference Interest Rates**

**Jibar:**

### **Code of Conduct, Governance Process and Operating Rules**

1 March 2013

## Abbreviations

CEO	Chief Operating Officer
FMD	Financial Markets Department
FMLG	Financial Markets Liaison Group
FSB	Financial Services Board
FSC	Financial Stability Committee
Jibar	Johannesburg Interbank Average Rate
JSE	Johannesburg Stock Exchange (JSE Limited)
NCD	negotiable certificate of deposit
RROC	Reference Rate Oversight Committee

## Glossary

Bank	South African Reserve Bank
Business day	A business day is defined as a market trading day (Monday to Friday, excluding public holidays).
Calculation Agent	Calculation Agent refers to the institution responsible for the calculation and publication of the reference rate. The calculation will be based on the rates submitted by the Contributors.
Code of Conduct	Code of Conduct refers to this Code of Conduct, Governance Process and Operating Rules for money-market reference rates.
Contributor	A Contributor refers to a commercial bank submitting data (bid and offer rates) to the Calculation Agent which is used to calculate Jibar for various maturities.
email	electronic mail
Financial Markets Liaison Group	The Financial Markets Liaison Group (FMLG) is a joint initiative between the South African Reserve Bank and key participants in the financial markets. The FMLG is a consultative forum and comprises three subcommittees, that is, the (i) Money Market Subcommittee (MMS), (ii) Fixed Income and Derivatives Subcommittee and (iii) Foreign Exchange Subcommittee.
Financial Services Board	The Financial Services Board (FSB) is a unique independent institution established by statute to oversee the South African non-banking financial services industry in the public interest.
Strate	Strate Limited. The licensed Central Securities Depository for the electronic settlement of financial instruments in South Africa.

## Enquiries

Comments or questions may be addressed to the Financial Markets Department via email:  
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## 1. Introduction

- 1.1 The process of determining money-market reference rates is important for the efficient functioning of money markets, the broader capital market, the interest rate derivatives market and the loan market in the Republic of South Africa. While this process has remained relatively unchanged for a number of years, the Bank, the JSE Limited (JSE) and other market participants are of the view that it is of the utmost importance to ensure the integrity of these reference interest rates and their use as benchmarks.
- 1.2 This document constitutes a Code of Conduct and a Governance Process for the Johannesburg Interbank Average Rate (Jibar) in the Republic of South Africa, and Operating Rules (**Annexure 1**) for Contributors. In creating a code of conduct and operating rules, it is recognised that personal integrity and a high level of professional conduct cannot be created or preserved by written rules alone. They also depend on role-players embracing the intentions and spirit of the Code of Conduct, Governance Process and Operating Rules. The Code of Conduct is therefore the key factor that determines the credibility of the reference rates. A Twin Peaks regulatory framework, with the South African Reserve Bank (the Bank) as Prudential Regulator and the Financial Services Board (FSB) as Market Conduct Regulator, is in the process of being developed and implemented. This Code of Conduct represents an interim arrangement until such time as the Twin Peaks legislation has been implemented. Once implemented, it is envisaged that certain aspects of this Code of Conduct, Governance Process and Operating Rules may be reassessed.
- 1.3 Supervision of compliance with the terms and conditions of the Code of Conduct shall be the responsibility of the Bank and shall be conducted by means of a committee styled the 'Reference Rate Oversight Committee' (RROC).

2. Code of Conduct for Contributors on the Johannesburg Interbank Average Rate (Jibar) panel

2.1 This Code of Conduct sets the qualifying criteria for Contributors to serve on the Jibar panel, the obligations of Contributors and exit criteria. A Contributor is a commercial bank submitting data (bid and offer rates) to the Calculation Agent which is used to calculate Jibar for various maturities. A Calculation Agent is the institution responsible for the calculation and publication of the reference rate. The calculation will be based on the rates submitted by the Contributors.

2.1.1 Eligibility criteria to qualify for, and remain on, the Johannesburg Interbank Average Rate (Jibar) panel:

2.1.1.1 Banks that satisfy the following conditions will qualify to become Contributors for this money-market reference rate panel:

- (i) A bank must be duly registered as such in terms of the Banks Act, 1990 (Act No. 94 of 1990).
- (ii) A bank must be a participant in the South African money market as a negotiable certificate of deposit (NCD) issuer with screen-displayed prices good for a minimum of R50 million.
- (iii) A bank must comply with specific rules with regard to the quotes as referred to in the Operating Rules in Annexure 1.
- (iv) Credit ratings will be a further guiding principle for the RROC when a bank's entry onto the panel of Contributors is considered.

2.1.1.2 Banks that comply with the eligibility criteria and qualify to serve on the Jibar panel are expected to apply by means of a formal letter or electronic mail (email) to the Chairperson of the RROC to be a Contributor for purposes of the calculation of these reference rates. Potential Contributors may also be recommended to the said Chairperson by the Financial Markets Liaison Group (FMLG).

2.1.1.3 An existing Contributor that no longer meets the eligibility criteria may be disqualified. However, should such disqualification severely and adversely

affect the robustness and confidence in the money-market reference rate process in which the Contributor is participating, it may retain its status as a Contributor at the discretion of the Bank.

## 2.1.2 Obligations of Contributors

2.1.2.1 Contributors are subject to the Code of Conduct and shall fulfil the following obligations:

- (i) A Contributor shall quote a screen price on a real-time basis on Reuters or Bloomberg during normal business hours on a business day. Real-time quotes from Contributors must reflect bid or offer screen rates for NCDs. The screen quote must be within a spread, as defined in the Operating Rules for Jibar reference rates.
- (ii) The real-time quotes from a Contributor shall be a true reflection of where the Contributor is actually transacting in the instruments underlying Jibar or where a Contributor would be willing to bid or offer an NCD with a minimum size of R50 million under prevailing market conditions. A Contributor must consider all factors relevant to the economic pricing of the underlying instrument and the underlying funding requirements of the Contributor. This should be reflected in its tradable bid/offer spread.
- (iii) A Contributor shall submit real-time quotes for every valid business day in accordance with the Operating Rules.
- (iv) A Contributor shall establish and comply with appropriate internal governance processes to ensure that quotes submitted to the Calculation Agent accurately reflect the actual funding activities of the Contributor concerned. Such governance processes must include oversight by senior management and the compliance function of the relevant Contributor, and appropriate internal and external audit procedures.
- (v) A Contributor shall provide the RROC with underlying transactional and other information that may exist, where applicable, in support of

any review or complaint of the rate setting process for money-market reference rates.

- (vi) In the event that a Contributor is no longer registered as a bank, immediate written notice should be given to the RROC.

### 2.1.3 Criteria to exit the Jibar panel

2.1.3.1 If a Contributor does not comply with the terms and conditions of the Code of Conduct or does not fulfil its obligations as a Contributor, it may be removed from the panel of Contributors in accordance with the Governance Process referred to in Section 3.

2.1.3.2 The exit of a Contributor from the Jibar panel for reasons of non-compliance or at its own request will be at the discretion of the RROC.

## 3. Jibar Governance Process

3.1 The Governance Process for the determination of Jibar is of paramount importance to ensure the continued integrity and reliability of these benchmark rates, through increased transparency and accountability.

3.2 This Governance Process outlines the responsibilities of the Bank and sets out procedures for dealing with disputes lodged and queries raised relating to the determination of these benchmark rates.

### 3.3 Responsibilities of the Bank

3.3.1 The process of determining Jibar reference rates in terms of the Code of Conduct is overseen by the Bank.

3.3.2 All Contributors are appointed in writing by the Bank to participate in the determination of the relevant money-market reference rates. Contributors must sign a letter of appointment, confirming that they adhere to, and are bound by, the requirements of the Code of Conduct.

- 3.3.3 Any changes to the Jibar determination procedures must be authorised by the Bank, based on recommendations from the FMLG.
- 3.3.4 The RROC will assess on a semi-annual basis (or when circumstances necessitate an additional review) Contributors' compliance with the Code of Conduct and each Contributor's internal governance processes for the calculation of Jibar rates. The RROC will prepare semi-annual reports to the Financial Stability Committee (FSC) of the Bank.
- 3.3.5 Rates submitted to the Calculation Agent will be validated by the Calculation Agent prior to the publication of Jibar to identify possible figure errors and to compare rates submitted by Contributors with screen rates at 9:30 of each business day.
- 3.3.6 The post-publication surveillance of Jibar will be conducted by the FMD of the Bank with a one-business day lag. For this purpose, primary issuance data will be provided to the Bank by Strate. Audits of the Jibar calculation process applied by the Calculation Agent will be conducted by the Internal Audit Department of the Calculation Agent on an annual basis and submitted to the Bank.
- 3.4 Complaints and disputes
- 3.4.1 The objective of this governance process is to maintain trust in money-market reference rates. In the event that a Contributor contravenes any provision of the Code of Conduct, any market participant that becomes aware of the breach, be it the public or another Contributor, must lodge a complaint or query with the Calculation Agent. In the event that the Calculation Agent is not able to resolve the complaint or query within a reasonable time period, the following process must be followed:
- 3.4.1.1 Complaints or queries shall be lodged formally, in writing, to the Head: FMD. The FMD is obliged to address the query or complaint of alleged contravention with the Contributor within five (5) business days. In the

event that a Contributor has contravened any provision of the Code of Conduct, the Contributor will be requested by the FMD to rectify the situation within a reasonable period.

- 3.4.1.2 Should the contravening Contributor fail to rectify the situation as requested, the matter will be referred to the RROC. The RROC will conduct a hearing and provide a final ruling to the Chief Executive Officer (CEO) of the Contributor on any cases referred by the Head: FMD. The ruling may include suspension from the Jibar panel. The Contributor shall remain suspended and only reinstated after remedying the situation to the satisfaction of RROC.

## **Annexure 1**

### **Operating Rules**

1. Introduction
  - 1.1 Operating Rules are intended to subject Contributors to certain requirements, restrictions and guidelines to create transparency in the process of determining money-market reference rates, and to reduce the risk of manipulative market practices. The following Operating Rules are applicable to Jibar:
2. Jibar
  - 2.1 The Calculation Agent for Jibar is the JSE.
  - 2.2 Contributors shall post bid and offer prices on their Reuters or Bloomberg pages. The following criteria shall apply:
    - 2.2.1 Quotes shall apply to NCDs.
    - 2.2.2 The spread should be a maximum of 25 basis points.
    - 2.2.3 Quotes shall apply to a trade size of at least R50 million.
  - 2.3 The bid and offer prices shall apply to the issuance (offer) or buy-back (bid) of NCDs issued by the Contributor. Bid and offer prices shall be quoted as bid first and offer second, for example, 7,25 per cent (bid) and 7,0 per cent (offer) implies that the Contributor is willing to buy its own NCDs at 7,25 per cent and issue a new NCD at 7,00 per cent.
  - 2.4 Quotes shall be displayed as a minimum between 9:00 and 12:00 on any business day, with the JSE taking a screenshot at 9:30. Quotes may be changed during this period in line with normal market practice.
  - 2.5 Quotes shall imply a Contributor's willingness to transact with approved counterparties at the displayed interest rates.

- 2.6 The Calculation Agent shall distribute a spreadsheet to Contributors and to the broader market, indicating all bids and offers through its data subscription system.
- 2.7 Contributors shall post quotes for the 1-, 3-, 6-, 9- and 12-month interest rate periods.
- 2.8 Quotes shall be based on the following market conventions:
  - 2.8.1 Settlement will be on a T+0 basis
  - 2.8.2 Redemption date is calculated by using the modified following-business-day convention
  - 2.8.3 Interest rates shall be quoted on the basis of an Actual/365- (fixed) day count calculation.
- 2.9 Procedure to submit rates
  - 2.9.1 The Contributor shall, by 9:15 of each business day, submit to the JSE via email its bid and offer rates. If no email has been received from a Contributor by 9:30, the JSE shall make a telephone call for its submission of rates.
  - 2.9.2 The JSE shall take a screenshot of a Contributor's screen rates at 9:30. This process serves as a cross-reference against the e-mailed rates, as well as to allow for instances where there are technology-related issues.
- 2.10 Calculation of Jibar by the Calculation Agent
  - 2.10.1 The bid/offer interest rates for each Contributor must be averaged to calculate a mid-rate.
  - 2.10.2 The mid-rates for all Contributors must be ranked from highest to lowest.
  - 2.10.3 The highest and lowest 25 percentile mid-rates must be excluded from the calculation. If a number of Contributors are included in the rates to be excluded, a random selection process will be used to select the excluded

Contributor or Contributors. This is to preclude any systemic bias in any statistics that calculate the number of times a Contributor is excluded.

- 2.10.4 The 50 percentile mid-rates must be averaged to determine Jibar rates for the respective maturities.
- 2.10.5 The use of percentiles when combined with a discreet number of Contributors requires that a discreet number of Contributors be selected to be equivalent to the 25/50 percentile statistics (Table 1).
- 2.10.6 Jibar rates must be published on Reuters page SAFEY at 10:00 and distributed through the JSE's data distribution systems to Contributors and to the general market.

**Table 1: Percentiles to discard Contributors in the calculation of Jibar**

<b>Number of contributors</b>	<b>25%</b>	<b>50%</b>
4	1	2
5	1	3
6	1	4
7	1	5
8	2	4
9	2	5
10	2	6
11	3	5
12	3	6