



South African Reserve Bank

## **Money-Market Reference Interest Rates**

**Jibar:**

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

19 May 2014

## Abbreviations

CEO	Chief Executive 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 obtained through snapshots by the Calculation Agent of the Contributors' NCD trading screens.
Code of Conduct	Code of Conduct refers to this Jibar: Code of Conduct, Governance Process and Operating Rules.
Contributor	Contributor refers to a commercial bank with screen trading in NCDs.
email	Electronic mail.
Financial Markets Liaison Group	The 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 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.

## 1. Introduction

- 1.1 The spirit of the Code of Conduct and the Operating Rules is to ensure that rates published on screen are reflective of true market conditions and actual trading levels at all times. The Jibar reference rate is a snapshot of these rates. Contributors commit to behave in a manner consistent with this spirit.
- 1.2 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.
- 1.3 This document formalises a code of conduct and a governance process for the Jibar in the Republic of South Africa, as well as operating rules (**Annexure 1**) for Contributors.
- 1.4 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 potential reference rates. A Twin Peaks regulatory framework, with the 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 for relevance and improvements.

1.5 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 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 panel exit criteria. A Contributor is a commercial bank with screens reflecting bid and offer rates for NCDs. The bid/offer rates for different maturities in the Jibar calculation will be taken directly from the Contributor screens. A Calculation Agent is the institution responsible for the calculation and publication of the reference rate. The calculation will be based on the rates obtained from the Contributors' screens.

2.1.1 Eligibility criteria to qualify for, and remain on, the 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 trade size of between R20 million and R100 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 will be invited by means of a formal letter or electronic mail (email) from 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 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. Contributors' screens must be updated timeously. If both systems are used, the prices should be the same. Real-time quotes from Contributors must reflect bid and offer screen rates for NCDs. Under normal market conditions, the quoted bid and offer spreads should be within the recommended spread, as defined in the Operating Rules for Jibar reference rates. The spread is governed by the Operating Rules and the Bank reserves the right to request motivations for deviations from the Operating Rules.
- (ii) The real-time quotes from a Contributor shall be a true reflection of the best price where the Contributor is willing to bid or offer NCDs under prevailing market conditions and cognisant of its own underlying funding conditions. A Contributor, therefore, may consider all factors relevant to the economic pricing of the underlying instrument and the funding requirements of the Contributor. These

considerations should be reflected in its tradable bid/offer spread. Where a Contributor has traded at a different level to what was quoted on screen, the screen must be updated to reflect where the trade took place.

- (iii) Switch trades (where a bank is simultaneously buying and selling NCDs negotiated as part of a single trade), are excluded from the rates submitted for the Jibar calculations. However, these trades must still be concluded at or inside the bid/offer spreads of NCD trading.
- (iv) A Contributor shall display real-time quotes for every valid business day in accordance with the Operating Rules.
- (v) A Contributor shall establish and comply with appropriate internal governance processes to ensure that quotes displayed, accurately reflect the actual NCD issuance rates of the Contributor concerned at any point in time. Such governance processes must include oversight by senior management and the compliance function of the relevant Contributor, and appropriate internal and external audit procedures.
- (vi) A Contributor shall provide the RROC with underlying transactional and other relevant information that may exist, where applicable, in support of any review or complaint of the rate setting process for money-market reference rates.
- (vii) 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 the Jibar is of paramount importance to ensure 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 will be requested, on an annual basis, to confirm in writing 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 obtained by the Calculation Agent from the Contributors' NCD screens will be validated by the Calculation Agent prior to the publication

of the Jibar. This validation will entail several snapshots between 9:15 and 9:45. The Calculation Agent reserves the right to use any snapshot during this window period for the Jibar calculation and data reflected on contributors' screens will be deemed as updated. The Calculation Agent will not be liable for stale prices when harvesting data from the contributors NCD screens.

3.3.6 The post-publication surveillance of the 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.

3.3.7 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 the integrity 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 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 the situation has been remedied 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 recommended spread under normal conditions should be a maximum of 25 basis points.
  
    - 2.2.3 Quotes shall apply to a trade size of between R20 million and R100 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 14:00 on any normal business day. Quotes may be changed during this period in line with normal market practice. If a Contributor trades outside of these hours,

the Contributors screens must continue to be updated in line with the principles laid out in the Code of Conduct.

- 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 obtain bid/offer rates:
  - 2.9.1 The Calculation Agent shall take screen shots of the Contributors' Reuters screen rates for the different Jibar maturities between 9:15 and 9:45 of each business day. These rates will be used to calculate the Jibar.
  - 2.9.2 In the event of Contributors not being able to update trading screens due to technology-related issues, Contributors shall submit bid/offer rates via email to the Calculation Agent by 9:30.
- 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