South African Reserve Bank

Media release

30 August 2018

Consultation paper on selected interest rate benchmarks in South Africa

The South African Reserve Bank (SARB) today published the ‘Consultation paper on selected interest rate benchmarks in South Africa’. The paper contains proposals on the reform of key interest rate benchmarks used in South Africa as well as proposals on a suite of new benchmarks that could potentially be used as reference interest rates. The current design of some interest rate benchmarks in South Africa is such that they do not sufficiently serve their intended purpose, while also not being fully aligned with global best practice standards.

The reform of interest rate benchmarks is in line with global reform efforts aimed at strengthening interest rate benchmarks that underpin the pricing of financial contracts worth trillions of dollars, and will play an important role in the smooth functioning of South Africa’s financial markets. Furthermore, the domestic reform efforts are consistent with the SARB’s endorsement of the coordinated efforts by global regulators and central banks to ensure that interest rate benchmarks are credible and accurate, and trusted by consumers and financial market participants. In addition, some of these interest rate benchmarks contribute to the assessment of the effectiveness of monetary policy and the monitoring of stress in the financial sector of the economy.

The SARB reviewed two benchmarks currently in use in South Africa: the Johannesburg Interbank Average Rate (Jibar) and the South African Benchmark Overnight Rate (Sabor). Following the review, it concluded that the current Jibar is neither fully representative of the actual funding structure of banks nor underpinned by actual transaction data. The Jibar is based on the low and dwindling share of negotiable certificates of deposits (NCDs) in the funding instruments used by commercial banks, and is furthermore derived from indicative rates posted on banks' NCD trading screens (as opposed to actual transactions). With respect to Sabor, challenges were found with the current composition of the benchmark as it comprises interest rate elements that are structurally different in nature.

Consequently, it is recommended that:

i. the current calculation of the Jibar be phased out and that a transaction-based rate, comprising NCDs and non-bank financial corporate deposits, be introduced to reform the current Jibar;
ii. risk-inclusive reference rates be used for the pricing of unsecured on-balance sheet (Jibar-linked) items and risk-free reference rates be used for collateralised transactions and derivative contracts;
iii. a term deposit benchmark, based on deposit transactions, be introduced and considered as a possible alternative to the Jibar;
iv. the Sabor be reformed and renamed as Sabor Money Market, comprising all overnight unsecured funding obtained by all banks, but excluding overnight foreign exchange (FX) swaps;
v. a South African Rand Interbank Overnight Rate (ZARibor), based solely on overnight interbank transactions obtained from all banks, be calculated and considered as a near risk-free rate;
vi. steps be taken to improve the liquidity of the secondary market for Treasury bills (TBs) so that TB yields may be considered for the calculation of a term risk-free curve;
vii. a government bond (GB) repurchase (repo) rate and a South African Secured Financing Rate (SASFR), comprising overnight funding in the GB repo market and supplementary repos conducted with the SARB, be introduced and considered for use as key overnight risk-free reference rates, including for the pricing of overnight index swaps; and
viii. a broader general collateral (GC) repo market with a broader pool of collateral than the current GB repo market be developed.

All stakeholders are invited to provide comments and suggestions on the proposals contained in the consultation paper by 26 October 2018. All comments, suggestions and general queries relating to this consultation paper should be sent to the SARB at SARB-WGRIRB@resbank.co.za

Further, the SARB intends to set up a joint public and private sector body, referred to as the Market Practitioners Group (MPG), involving representatives of all relevant stakeholders. The MPG will comprise members of the SARB, the Financial Sector Conduct Authority (FSCA), as well as senior professionals from a variety of institutions to reflect different market interest groups active in the domestic money market. The primary purpose of the MPG will be to facilitate decisions on the choice of interest rate benchmarks to be used as reference interest rates for financial and derivative contracts, as well as to provide input to the SARB and the FSCA on the operationalisation of the interest rate benchmark proposals as contained in the consultation paper.

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