



SOUTH AFRICAN RESERVE BANK

Media Release

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Publishing of the feedback report on the draft statement of methodology and policies governing the SARB-administered interest rate benchmarks

The South African Reserve Bank (SARB) today published a report titled ‘Feedback on the draft statement of methodology and policies governing the SARB-administered interest rate benchmarks’. The report summarises the public comments received on the ‘Draft statement of methodology and policies governing the SARB-administered interest rate benchmarks’, otherwise referred to as the Technical Specification Paper (TSP), and the results obtained from back-testing the proposed benchmarks contained therein using historical transactions data.

The TSP marked an important step in the multi-year process of transforming widely used interest rate benchmarks in South Africa. It detailed the calculation methodologies, contingency arrangements and policies for four new benchmarks as well as the reformed version of the South African Benchmark Overnight Rate (SABOR). The benchmarks are as follows:

- South African Rand Interbank Overnight Rate (ZARIBOR);
- South African Secured Overnight Financing Rate (ZASFR);
- South African Rand Overnight Index Average (ZARONIA);
- Term Wholesale Financial Corporate Fixed Deposit Benchmark Rate; and
- Term Wholesale Non-Financial Corporate Fixed Deposit Benchmark Rate

Some of the proposed benchmarks will play a major role in the reform of reference interest rates in the South African financial markets. ZARONIA is the reformed version of SABOR and will therefore most likely replace the benchmark in due time. Furthermore, the Market Practitioners Group (MPG) has designated ZARONIA as the preferred successor to replace the Johannesburg Interbank Average Rate (Jibar). Since Jibar currently underpins a significant number of financial contracts, it was deemed critical that the conceptual design of ZARONIA be rigorously tested to ensure that it was reliable, robust and sufficiently stable.

The SARB collected five-year historical transactions data from the four largest commercial banks and JSE Limited (JSE) to enable the back-testing of the proposed benchmarks. The main objective was to calculate the historical benchmark rates, to

observe their behavior and examine whether the parameters that guide their calculation are appropriate. Furthermore, the collected data allowed the SARB to evaluate if the contingency arrangements specified for each benchmark were likely to suffice in the event where the normal calculation methodologies could not be applied.

The SARB would like to thank all stakeholders for their participation in the reference rate reform project. The feedback provided to the draft TSP, together with the outcomes of the benchmark back-testing exercise, has informed revisions to the draft TSP. The outcome of this exercise will inform further deliberations of the MPG as it makes its final decisions on the successor rate. The final TSP will be published in due course and is expected to coincide with the beginning of the observation period for ZARONIA, at which time the rate will be published daily.

For more information, please contact Mr Bafundi Maronoti, Lead Specialist: Market Operations and Analysis at Bafundi.Maronoti@resbank.co.za or Mr Zakhele Gininda, Senior Specialist: Market Operations and Analysis at Zakhele.Gininda@resbank.co.za.

Issued by SARB Media Relations

Media@resbank.co.za