

Joint Communication 6 of 2024

Financial institutions' preparations towards the transition from JIBAR to ZARONIA

1. The Prudential Authority (PA) and the Financial Sector Conduct Authority (FSCA), jointly referred to as “the Authorities”, wish to highlight to relevant financial institutions the ongoing global benchmark rate reforms steered by the Financial Stability Board (FSB). The global financial market has recently completed the transition away from the use of the London Interbank Offered Rate (LIBOR) in a number of jurisdictions.
2. South Africa is a member of the FSB’s Official Sector Steering Group (OSSG). The South African Reserve Bank (SARB) is the administrator of the Johannesburg Interbank Average Rate (JIBAR) and has the primary responsibility for all aspects of the determination process and the integrity of the reference rate and has evaluated the design of JIBAR against the recommendations as outlined by the International Organization of Securities Commissions (IOSCO) in the Principles of Financial Benchmarks. Through this evaluation, the SARB found, like many other countries, that JIBAR exhibits some of the weaknesses that were observed in the design of certain Interbank Offered Rates (IBORs). Consequently, the SARB deemed it prudent to plan for the discontinuation of the benchmark and for financial markets to transition away from it.
3. The extent to which JIBAR is deeply embedded in current business practices means the transition will be complex and will require significant time and effort. Insufficient preparations for the transition to alternative rates could have a negative impact on the safety and soundness of financial institutions and cause harm to their clients and to the markets in which they operate.
4. The discontinuation of JIBAR refers to the cessation of the publication of the benchmark past a certain date. This will mean that contracts referencing JIBAR will need to be actively transitioned to an alternative reference rate. The South African Overnight Index Average (ZARONIA) has been identified as the preferred successor rate to JIBAR¹ by the Market Practitioners Group (MPG)², a joint public and private sector group that was established by the SARB in 2018. The exact date for the discontinuation of JIBAR will be determined and communicated in due course by the SARB.
5. The JIBAR transition is a significant event impacting a broad set of financial products and market segments. Accordingly, it is essential that each financial institution plans appropriately and ensures that relevant business units and supporting functions execute accordingly. As observed in other jurisdictions, one of the most effective ways for financial institutions to prepare is to undertake a comprehensive risk assessment of the potential prudential and conduct impacts associated with transition. This assessment should be proportionate to the extent of the financial institution’s usage of JIBAR and JIBAR-referencing instruments.
6. The purpose of this communication is to convey the Authorities’ expectations that financial institutions’ senior executives and boards understand the risks associated with this transition

¹ The conceptual design of ZARONIA was rigorously tested using bona fide transactions data to ensure that it is reliable, robust and sufficiently stable. The back-testing results were published in a report titled [Feedback on the draft statement of methodology and policies governing the SARB-administered interest rate benchmarks](#).

² For more information on the Market Practitioners Group, see <https://www.resbank.co.za/en/home/what-we-do/financial-markets/financial-markets-market-practitioners-group>

and are taking appropriate action so that financial institutions may transition to alternative rates ahead of the final JIBAR cessation.

7. Continued industry participation and commitment to develop new market structures, technologies, standards, and solutions to address the various challenges during this transition will be an essential part of the success of this collective effort.
8. Accordingly, board-approved plans and assessments should consider an appropriately wide range of scenarios and impacts and should include, amongst other factors:
 - (a) Identifying the institution's JIBAR-related exposure and establishing an enterprise-wide **JIBAR transition programme** across businesses and functions to manage the transition risks associated with JIBAR-related exposures;
 - (b) **quantifying, monitoring and reporting** JIBAR-related exposures throughout the transition;
 - (c) developing a **product strategy** that includes creating and/or adopting ZARONIA-based products;
 - (d) developing a plan to address the required changes to **technological infrastructure, processes, and skills** required for the JIBAR transition and the use of ZARONIA-based products;
 - (e) determining **the financial accounting and taxation** impacts;
 - (f) determining the financial, customer, and **legal implications** that will result from the transition and plan for the inclusion of fallbacks in financial contracts;
 - (g) developing a **communications strategy** to proactively engage and educate internal and external stakeholders; and
 - (h) establishing a **governance framework** with senior executives to oversee an enterprise-wide JIBAR transition programme.
9. The Authorities will, through targeted supervisory engagements, monitor the risks associated with JIBAR cessation and transition, and consider appropriate next steps to be communicated in due course.
10. Should there be any questions in relation to the contents of this communication, please contact the relevant PA and FSCA supervisory teams.



Unathi Kamlana
Commissioner
FINANCIAL SECTOR CONDUCT AUTHORITY

Date: 11 September 2024

Fundi Tshazibana
Chief Executive Officer
PRUDENTIAL AUTHORITY

Date: 11 September 2024