



South African Reserve Bank

Confidential

**Minutes of the meeting of the Market Practitioners Group on Interest Rate
Benchmark Reforms held via MS Teams on
Wednesday 17 June 2020 at 13:00**

Minutes No. 2/2020

Present:

F Tshazibana	(Chairperson – Deputy Governor of the SARB)
G Haylett	Banking Association of South Africa
J Mol	Association of Corporate Treasurers of Southern Africa
Z Parker	SARB
A Du Toit	Chair – Risk Free Reference Interest Rate
E Hamman	Chair – Governance
P Burgoyne	Chair – Transition
D Raju	Chair – Risk based Reference Interest Rate
R Roux	Chair – Data Collection and Infrastructure
G Raine	Association for Savings and Investment South Africa

In attendance:

M Nkuna	SARB Financial Markets Department
B Maronoti	SARB Financial Markets Department
S Springfield	SARB Financial Markets Department
P Mananga	Prudential Authority (from Item 6)
N Patel-Manga	SARB – DG Tshazibana's Office
SL Reynolds	SARB Group Secretariat

Apologies:

J Boyd	Financial Sector Conduct Authority
Z Gininda	SARB Financial Markets Department

1. Welcome

- 1.1 The Chairperson welcomed members to the second meeting of the Market Practitioners Group on Interest Rate Benchmark Reforms (MPG or Committee) in 2020.

1.2 The meeting noted the technical difficulties Mr Boyd was experiencing in joining the meeting and the apology received from Mr Gininda.

1.3 There being a quorum present, the meeting was duly constituted.

2. Adoption of the agenda

2.1 The agenda was adopted with no additional items.

3. Confirmation of the Anti-Competitive Statement

3.1 The Anti-Competitive Statement was noted and accepted by all members and attendees present.

4. Approval of Minutes No. 1/2020 of the meeting held on 5 March 2020

4.1 The minutes of the meeting held on 5 March 2020 were accepted as a true reflection of the deliberations and were approved for signature by the Chairperson, subject to a correction on 6.5.4, to delete “a book of data” and replace it with “data collection requirements”.

4.2 The signed minutes would be published on the MPG website.

5. Feedback and review of the progress reports from the MPG work streams

5.1 Risk-Free Rates work stream

5.1.1 The report from the Risk-Free Rates work stream was taken as read and Mr du Toit reported on the five key recommendations.

5.1.2 The MPG noted the two recommended overnight reference rates, namely the unsecured overnight rate based on unsecured overnight call deposits, as well as the secured overnight rate based on the South African government bond repo market. While the MPG recognised the advantages

of selecting the secured overnight reference rate as a preferred alternative rate, it was noted that there were structural inefficiencies that would make the adoption of the secured rate difficult. This, however, does not preclude the adoption of the rate over the long term, as it is expected that the market structure would shift towards secured financing.

5.1.3 A discussion was held on the sequencing of the transition to the alternative overnight reference rate. Considering that the data reflects that the biggest volume of transactions are in the unsecured market, the MPG expressed a preference for adopting the unsecured overnight rate as a near-risk free rate for South Africa (SA). The secured market still requires further development before transition.

5.1.4 Work on the constraints facing the secured market would take place alongside the development of the unsecured overnight rate. When these were addressed, progress could be made in implementing a secured overnight rate.

5.1.5 It was agreed that the Risk-Free work stream position paper could be published on the website.

5.2 Unsecured Reference Interest Rate work stream

5.2.1 The Unsecured Reference Rates work stream report was taken as read and Mr Raju highlighted the work undertaken and the key findings.

5.2.2 It was noted that this work stream was mandated to make recommendations on the choice and design of reformed interest rate benchmarks in SA, the administrators and calculation agents and to produce a statement of compliance to the International Organization of Securities Commissions (IOSCO) principles for financial benchmarks.

5.2.3 The work stream considered all the transactions in the financial markets for one year, the IOSCO principles, industry feedback and global developments, amongst other contributions.

- 5.2.4 Notwithstanding that the SARB consultation paper, published in 2018, had recommended a hybrid-JIBAR, this work stream had recommended that it was not a viable alternative to JIBAR for SA.
- 5.2.5 The key recommendation was that the JIBARs, most importantly 3M JIBAR, could be strengthened by a number of reform measures as set out in the report. The strengthened JIBAR would be an interim measure while alternative risk free reference rates are being developed. These measures could also support the sustainability of the JIBARs in a multiple rate regime.
- 5.2.6 Ms Raine noted that the proposal was supported by the buy-side and that the data collection would create good transparency in the money market environment. It was noted that this was the first time that the buy-side had been involved in these discussions and the input had been valuable and would be continued.
- 5.2.7 The work stream was open to the SARB's guidance on the decision-making body, however, the recommendation was to use the Money Market Subcommittee of the Financial Markets Liaison Group. There was a concern that the MPG work streams would not be in a position to do the detailed work required to take the recommendations forward.
- 5.2.8 It was agreed that the Code of Conduct and approval process must be considered by the Governance work stream. However, the MPG should be used to focus on the transition plan and not to do the work other bodies were in a better position to do.
- 5.2.9 It was agreed that this position paper could be published. However, Mr Maronoti highlighted that the SARB would need to reflect on the recommendations presented by the Risk-Free and Unsecured Reference Rate work streams and ensure that they had addressed the issues raised by the SARB. He confirmed that the SARB Working Group (working group) was in alignment with the recommendations, but needed to consider how to address the operationalisation thereof.

5.3 Transition work stream

5.3.1 The Transition work stream update was taken as read and Mr Burgoyne presented the transition approaches set out in the report, namely; a Parallel Run, Contractual Alternative, Pure Succession and Recalibration.

5.3.2 Once key proposals from the Risk-Free and Unsecured work streams were adopted and a high-level approach to transition agreed, more detailed work could begin on a draft timeline for transition to new RFRs. The completion date for the transition plan was still December 2020.

5.3.3 It was noted that the Risk-Free Reference Rate and Unsecured Reference Rate work streams had largely completed their work and that the resources could be moved across to assist both the Transition and Data Collection and Infrastructure work streams as there would be a lot of work to be done in the second half of the year.

5.3.4 It was highlighted that the cost to transition to the new reference rates could be significant, including when dealing with the renegotiation of legal agreements. Prior to deciding on a transition approach, the costs and benefits of each approach should be carefully considered.

5.4 Governance work stream

5.4.1 The Draft Governance Position Paper was taken as read.

5.4.2 Ms Hamman reported that the Governance work stream had used the IOSCO principles as the guidance for discussion and considered how other jurisdictions dealt with the oversight function.

5.4.3 The recommendations set out in the Draft Governance Position Paper were in line with the proposed benchmark standard currently being developed by the Financial Sector Conduct Authority.

5.4.4 It was noted that any proposed penalties and censure for non-compliance should be included in the reference rate standard rather than in the Code of Conduct.

5.5 Data Collection and Infrastructure work stream

5.5.1 The draft minutes of the Data Collection and Infrastructure (DCI) meeting held on 25 May 2020, had been circulated prior to the meeting and were taken as read.

5.5.2 Mr Roux reported that the recommendations and proposal considered earlier in the meeting would make up the DCI book of work. The next step would be to consider the roadmap and prioritisation of work to build a programme for presentation to the MPG.

6. MPG roadmap

6.1 Mr Maronoti presented a five-step transition approach to move from the interim, being the implementation of a strengthened JIBAR, to final phase, being the implementation of an alternative reference rate, the cessation of JIBAR and the implementation of fallbacks, as applicable, by 2024.

6.2 It was noted that the proposed Roadmap required additional input from the Transition work stream and the DCI work stream.

6.3 Mr Raju cautioned that the general consensus was that two to four years of backward looking data or history on a new rate would be necessary to develop a market infrastructure. For example, the United States of America would have four years of backward looking detail before moving to their new rate. In addition, the vast number of agreements already in place would result in a significant cost and time burden on participants, to renegotiate them. Consideration may have to be given to allowing time for some contracts to mature, but that it would not be possible to wait for all contracts to mature. A transitional end date would need to be established. Market

participants would have to start including fall back language into their agreements in the interim.

- 6.4 It was agreed that the Roadmap reflected a point in time, but that it would evolve and be refined as more work was performed in the Transition and DCI work streams.

7. Proposed Communications work stream

- 7.1 Mr Parker reported on the progress with the establishment of a Communications work stream.

- 7.2 Proposed amendments to the MPG work streams Terms of Reference had been made for consideration by the members, and would be circulated after the meeting for review and comment.

- 7.3 The members of the Communications work stream from within the SARB, were suggested as the Head of Communications, Thoraya Pandey, Messrs Maronoti and Gininda, Ms Mavundla and a designate from the Legal Services Department. Additional members would need to be added as the work stream's functions were formalised.

- 7.4 The purpose of the Communications work stream would be to anchor the communications strategy and to ensure that the members communicated with "one voice" as an industry.

- 7.5 It was agreed that the SARB would be the lead communicator and that Mr Parker should chair the Communications work stream. The members of the MPG could suggest a deputy chairperson and were requested to send the contact details for any suitable persons from their organisations, who could be coopted onto the work stream.

8. Publication of SARB's technical specification paper

- 8.1 Mr Maronoti reported that the SARB Technical Specification Paper had been considered by the various work streams, the MPG and the SARB Governors'

Executive Committee and was ready for publication.

- 8.2 It was confirmed that the paper would be published for public comment before the end of June 2020 and that the public would be given three month to provide comment.

9. Date of the next meeting

- 9.1 It was confirmed that the next MPG meeting was scheduled to be held on Friday 21 August 2020, at 09:00.

10. Closure

- 10.1 The Chairperson thanked everyone for their attendance and contributions to the discussions.
- 10.2 There being no further matters for discussion, the meeting was closed.

DG F Tshazibana

Date

Chairperson:

Market Practitioners Group on the Interest Rate Benchmark Reforms