



SOUTH AFRICAN RESERVE BANK



A purposeful journey

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**Minutes of the meeting of the Market Practitioners Group on Interest Rate
Benchmark Reforms held via MS Teams on Friday 12 March 2021 at 09:00**

Minutes No. 1/2021

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 (ACTSA)
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 (ASISA)
J Boyd	Financial Sector Conduct Authority

In attendance:

Z Gininda	SARB Financial Markets Department
B Maronoti	SARB Financial Markets Department
S Springfield	SARB Financial Markets Department
P Mananga	Prudential Authority
N Patel-Manga	SARB – DG Tshazibana's Office
SL Reynolds	SARB Group Secretariat

By Invitation:

A Nortje	Strate (Pty) Limited
M Magagula	Prudential Authority
S Govender	Prudential Authority
J Wingyou	Prudential Authority
T Thebenare	Prudential Authority

1. Welcome

1.1 The Chairperson welcomed members to the first meeting of the Market Practitioners Group on Interest Rate Benchmark Reforms (MPG or Committee) in 2021.

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

2. Adoption of the agenda

2.1 The agenda was adopted as proposed, with no amendments.

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. 4/2020 of the meeting held on 26 November 2020

4.1 The minutes of the meeting held on 26 November 2020 were accepted as a true reflection of the deliberations and were approved for signature by the Chairperson.

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

5. Matters arising

5.1 Update on the implementation of the revised Jibar Code of Conduct

5.1.1 Mr Maronoti reported that the Jibar Code of Conduct and Operating Rules (Code) would come into effect on 1 April 2021. The SARB would publish a media statement to launch the revised Code.

5.1.2 Mr Nortje reported that Strate was on track with the development of an

end-to-end solution for the publishing of post-trade disclosures, which was expected to go live on 24 May 2021.

- 5.1.3 It was highlighted that the publication of post-trade disclosures would demonstrate the level of activity that supported Jibar and lend credibility to the rate. This was an important step in the transition plan as it would allow the implementation of an alternative near risk free rate and ensure an orderly transition.

5.2 **Update on comments received on the Governance Position Paper**

- 5.2.1 It was recorded that the Governance work stream had presented its position paper at the MPG meeting in November 2020 and members were requested to submit any input or comments on the paper via email. No comments had been received by the Secretariat.

- 5.2.2 Ms Hamman noted that she was not opposed to the document being used as a guideline at this time and not be published just yet. The Chairperson enquired about the progress being made with the legislative framework being developed by the Financial Sector Conduct Authority and the sequencing of that with the MPG Governance position paper. It was confirmed that the regulatory framework had been developed and was with the National Treasury for review and confirmation. It was anticipated that the regulatory framework would be published by the end of April or early May 2021.

- 5.2.3 After further discussion, it was agreed that the Governance position paper would be used as a reference document for the benchmarks being developed and that it should be released for broader comment in the financial sector as there may be other views that could add value. It could also be used as part of the educational outreach efforts.

- 5.2.4 It was further agreed that the regulatory framework should be published prior to the Governance position paper being published for comment. In the interim, the position paper could be reviewed further and any gaps around the broader principles could be closed. If possible, the Governance position paper should be published by late May/early June 2021, depending on the publication of

the regulatory framework.

6. Summary report of the FSB OSSG meetings in February 2021

- 6.1 Mr Parker reported that the Official Sector Steering Group (OSSG) of the Financial Stability Board (FSB) held its virtual meetings on 17 and 19 February 2021. The meetings included a roundtable discussion with industry representatives, which was attended by Ms Raine and Messrs Haylett, Mol, Parker and Gininda, with Mr Parker as the official member of the FSB OSSG.
- 6.2 The meetings focused on the progress made in transitioning from LIBOR to alternative near-risk free rates (RFRs) and the challenges experienced locally. Mr Parker highlighted some of the key messages, as follows:-
 - 6.2.1 The United Kingdom (UK) and the United States of America had made various announcements concerning the end of LIBOR settings and had advised firms that they had approximately 10 months to reduce their reliance on LIBOR and transition to the RFRs, where possible. The regulators and national working groups were focused on resolving the treatment of legacy contracts.
 - 6.2.2 Most regulators had adopted the International Swaps and Derivatives Association (ISDA) approach to dealing with legacy contracts. However, market participants raised concerns with the differences in approaches between jurisdictions, which would impact multinational companies and syndicated lending arrangements.
 - 6.2.3 It was highlighted that the transition efforts in loan markets and some mortgage markets were slow, with some commercial banks taking a “wait-and-see” approach.
 - 6.2.4 It was agreed that communication and educational outreach initiatives were of paramount importance, particularly with respect to non-financial institutions, who were less engaged in the transition issues. A targeted communication strategy was deemed necessary and the commercial banks would need to communicate with their clients.

6.3 It was noted that the Communications work stream had a lot more work to do and that the information obtained from these OSSG meetings would be important lessons for the transition from Jibar. Mr Raju noted that the Transition work stream would need to establish a position early in order to assist with bilateral contracts in particular, as it would be difficult to renegotiate the rates contract by contract.

6.4 The Chairperson noted that when the SARB had visited the UK in 2020, they were advised that there had been a blended approach to communication and education between the central bank and the commercial banks, who would be advising their clients.

7. Libor transition in South Africa

7.1 Mr Magagula from the Prudential Authority (PA) presented on the progress being made with the various measures and/or initiatives being undertaken by the South African banking industry to implement the transition from LIBOR.

7.2 The PA had participated in FSB-Basel Committee on Banking Supervision and International Association of Insurance Supervisors LIBOR transition surveys; conducted a domestic survey; engaged with benchmarks reforms teams at institutions responsible for their respective LIBOR transition during on-site inspections; and created awareness through industry forums.

7.3 The preliminary results of the domestic survey were presented and the following challenges for regulated institutions were noted:-

7.3.1 There was a lack of transition awareness amongst their non-regulated clients;

7.3.2 They were waiting for guidance on forward-looking term rates from the relevant industry bodies;

7.3.3 Regulatory clarity on cessation date on referencing LIBOR (as opposed to guidance) was needed.

7.4 The PA noted that it lacked insight regarding non-regulated institutions and had not engaged them yet.

- 7.5 It was reported that the PA had not undertaken any supervisory actions to date, however, supervisory interventions may be developed and implemented in 2021 to further strengthen transition efforts. The PA would continue to maintain dialogue with its supervised institutions with respect to the LIBOR transition. In response to a question, it was confirmed that supervisory interventions could take place in instances where an institution was identified as not progressing well with the transition process and could pose a systemic risk or overall reputational risk for the industry. The form of the intervention had not yet been decided and would be communicated when appropriate.

The Chairperson thanked all the parties that had been invited to present at the meeting for their contributions and excused them from the meeting

8. Feedback and updates from the MPG work streams

8.1 Data Collection and Infrastructure work stream

- 8.1.1 The Data Collection and Infrastructure (DCI) work stream update for March 2021 and the information pack for the meeting held on 25 February 2021 were noted and taken as read.
- 8.1.2 The DCI work stream had agreed on the size of the secured and unsecured money market datasets required to complete the back testing. The initial three months' data would be submitted to the SARB by 15 March and the full five-year data set by 15 April 2021. The datasets would remain securely stored at the SARB for the duration of the back-testing exercise and beyond.
- 8.1.3 The SARB and the DCI work stream would build a solution that would allow the benchmark administrator to make reliable calculation of the benchmark interest rate daily. It was envisaged that the solution would be deployed by 3 October 2022. The SARB was currently finalising its plans for the development of the solution, which were expected to be completed during the 2nd quarter of 2021.

8.2 **Communications work stream**

8.2.1 Mr Parker reported that the first meeting in 2021 had to be re-scheduled as there had not been a quorum present. The meeting was subsequently held on 10 March 2021 and meetings for the remainder of the year would be scheduled and diarised.

8.2.2 The three key matters considered at the meeting were highlighted as follows:

- How and what information should be disseminated from the MPG meetings;
- The development of a newsletter to ensure clear and consistent communications; and
- The establishment of a firm work plan.

8.2.3 It was confirmed that while the MPG meeting minutes and the various position papers were loaded on the SARB website for all interested parties to review, there could be further targeted communication through various industry bodies, such as ACTSA and ASISA.

8.2.4 It was agreed that the Communications work stream should present proposals to the MPG for consideration and approval. The proposals should outline an appropriate communication roll out plan.

9. **Reconfiguration of the MPG and the Roadmap for 2021**

9.1 The Chairperson reminded the meeting of the agreement during the previous MPG meeting that a shift in focus would be required towards transition matters and that this may require a reconfiguration of the work streams to ensure that the necessary work could be completed.

9.2 Mr Burgoyne reported that he had a beneficial discussion with the chairperson of the DCI work stream, which provided him with additional information that could be used to refine the timelines included in the tentative transition plan. Mr Raju highlighted that a key milestone would be to settle on a new reference rate and to publish the related data as it would be easier to formulate a more

concrete plan after that. Mr Burgoyne agreed and noted that some of the preliminary work and consultations could begin in the interim.

9.3 It was agreed that the sequencing of activities was important and that the SARB working group would have an alignment session with Mr Burgoyne to consider the way forward and would present some proposals to the MPG for consideration. The Chairperson noted that the MPG would need guidance on the additional work streams that would be required and how the Chairpersons would be elected etc.

9.4 It was suggested that these arrangements should be made as soon as possible and could be approved by way of a round robin or an additional special MPG meeting, if necessary.

10. Next meeting

10.1 It was recorded that the next MPG meeting was scheduled to take place on Friday, 11 June 2021 at 09:00.

11. Closure

11.1 The Chairperson noted that this was the last meeting that Mr Boyd would be attending prior to his retirement at the end of March 2021. On behalf of the MPG, the Chairperson thanked Mr Boyd for his contributions and wished him well in his retirement.

11.2 The Chairperson thanked everyone in attendance for their contributions and 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