

 P O Box 427 Pretoria 0001 South Africa
 370 Helen Joseph Street Pretoria 0002
 +27 12 313 3911 / 0861 12 7272
 www.resbank.co.za



SOUTH AFRICAN RESERVE BANK

File ref. no.: 11/26/18/1

Financial Markets Department

Minutes of the meeting of the Market Practitioners Group on Interest Rate Benchmark Reforms (MPG) held via MS Teams on Friday, 9 June 2023 at 09:00

Minutes No. 02/2023

Present:

R Cassim	Chairperson – Deputy Governor of the SARB
J Mol	Association of Corporate Treasurers of Southern Africa (ACTSA)
A Ludin	Financial Sector Conduct Authority (FSCA)
Z Parker	SARB – Chair: Communications Workstream
R Roux	Chair – Data Collection and Infrastructure Workstream
G Raine	Association for Savings and Investment South Africa (ASISA)
A Du Toit	Chair - Risk-free and Term Reference Rates Workstream
P Gokaldas	Chair – Derivatives Workstream
C van der Walt	Chair – Legal Workstream
M Phungo	SARB Financial Markets Department

In attendance:

Z Gininda	SARB Financial Markets Department
S Springfield	SARB Financial Markets Department
N Hoosenmia	SARB Financial Markets Department
P Mananga	SARB Prudential Authority
B Maronoti	SARB Financial Markets Department

By invitation:

M Vilakazi	SARB Legal Services Department
M Shongwe	SARB Legal Services Department
G Boyce	Transition Workstream member

O Eybers Governance Workstream Member
N Makoko Governance Workstream Member

Apologies:

E Hamman Chair - Governance and Regulatory Issues Workstream
P Burgoyne Chair – Transition Workstream
G Haylett Banking Association of South Africa

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 2023.

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 a minor amendment to include feedback from the Official Sector Steering Group's (OSSG) meeting.

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. 1/2023 of the meeting held on 3 February 2023**

4.1 The minutes of the meeting held on 3 February 2023 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 page on the SARB website.

5. Matters arising

5.1 SAFEX Overnight Rate

5.1.1 Ms Eybers reported that the Financial Sector Conduct Authority (FSCA) had not concluded its final recommendation on the SAFEX Overnight Rate (hereafter denoted as SAFEX O/N). There were some delays experienced with the finalization of the draft Benchmark Regulation and Conduct Standard due to the development of a licensing framework. Furthermore, the FSCA had identified a need to consult the public further regarding some of the benchmarks that were widely used in South Africa. The consultation would include items on SAFEX O/N, which had not been considered in the draft Benchmark Regulation and Conduct Standard.

5.1.2 Mr Gininda highlighted that, notwithstanding the outcome of FSCA's determination, it would be beneficial for the MPG to finalize its own position on the use of SAFEX O/N after ZARONIA had been declared available for use. Subsequently, the MPG would make a decision on whether to submit its views as a response to the FSCA's consultation process and/or publish a position paper with recommendations for market participants.

5.2 ZARONIA Code of Conduct

5.2.1 Mr Gininda indicated that the new members of the Governance and Regulatory Issues Workstream would be given an opportunity to consider the workstream's position paper and provide their input before the document was submitted to the South African Reserve Bank (SARB). Subsequently, the SARB would use the position paper to formulate ZARONIA Code of Conduct.

5.3 Board Notice 90

5.3.1 Ms Ludin indicated that the FSCA had received feedback from the Association for Savings and Investment South Africa (ASISA) regarding the assessment of Board Notice 90 (BN90). However, the issues regarding BN90's section 8(4) were not addressed in the recent, interim review of the regulatory instrument. Consequently, the FSCA would consider them in its comprehensive review of BN90. Ms Ludin

would confirm the planned timelines for the comprehensive review in due course.

5.4 **Annual MPG conference**

5.4.1 Mr Parker noted that the second annual MPG conference, which took place at the Galleria (Sandton) on 19 April 2023, was successfully executed and well attended. The SARB had received positive feedback from attendees.

5.4.2 All conference documents and recordings would be published on the MPG webpage. Furthermore, the Communications Workstream had planned to publish its first newsletter, which would cover the conference. The newsletter would be distributed electronically to maximise its reach and include links to the conference-related materials.

5.5 **General guidance on fallbacks**

5.5.1 Mr van der Walt provided feedback on the Legal Workstream's documents circulated at the annual MPG conference which included; note on the enforceability of a general clause to replace Jibar, the International Swaps and Derivatives Association (ISDA) fallback guidance and sample Jibar replacement clause for loan agreements. The documents aimed to assist the Derivatives Workstream in its understanding of the International Swaps and Derivative Association (ISDA) fallbacks framework, general guidance on incorporating fallback language in legal contracts and offer the South African market an example of "soft fallback language" which can be inserted in loan agreements referencing JIBAR until such time as the ZARONIA loan conventions are settled and hardwired fallback language to affect a direct switch to ZARONIA is crafted respectively.

5.5.2 The documents were submitted to the SARB language centre for review and feedback was received. Subsequently, the inputs are under consideration by the legal workstream. It was indicated that the note on the enforceability of a general clause to replace Jibar should not be published given that it was an opinion piece, but rather publish the International Swaps and Derivatives Association (ISDA) fallback guidance and sample Jibar replacement clause for loan agreements documents with disclaimer that the context of the documents was for information

purposes and that market participants should obtain their own legal advice.

6. **Jibar-related exposures survey results**

- 6.1 Mr Hoosenmia presented the preliminary results of the Jibar-related exposures survey, which was administered in January 2023. The population of valid responses received included 43 firms, comprising commercial banks and insurers. Key findings indicated that approximately 99% of the total outstanding exposure referenced the 3-month Jibar. The largest portion of the banking sector's outstanding exposure was related to derivatives, which accounted for 90% of the total exposure (i.e., R27.9 trillion out of R30 trillion). Furthermore, approximately 73% of exposures referencing Jibar are due to mature within the time period ranging from overnight to two years. This indicated that approximately 27% of exposures (i.e., R8.3 trillion) have maturity date extending beyond two years, thus a relatively short transition period is achievable.
- 6.2 It was suggested that future surveys include questions on infrastructure readiness and request respondents to provide granular details on the longer-term maturities, which would assist to identify tough legacy contracts. The survey instrument would be amended to capture information needs of the MPG workstreams. The Prudential Authority (PA) would assist in administering future instalments of the survey on a quarterly basis to enable the effective monitoring of the Jibar transition. The next instalment of the survey would be conducted 30 June 2023.

7. **Jibar transition roadmap**

- 7.1 Ms Boyce presented a revised Jibar transition roadmap that reflected a shortened transition period of 3.5 years, instead of the initial estimate of five years. The roadmap included the same key milestones and activities that were previously presented to the MPG. However, the time between the milestones had been truncated such that the Jibar cessation date would potentially fall in 2026.
- 7.2 Nonetheless, it was proposed that the transition roadmap should include a requirement for commercial banks to halt issuances that reference certain Jibar tenors with relatively low exposures. Including such a 'no new Jibar issuance'

requirement in 2024 would signal the necessity for firms to operationalise transition plans and strengthen the adoption of ZARONIA. The transition workstream was asked to engage the contributing banks for Jibar on the matter and obtain their input.

7.3 It was highlighted while 'Dear CEO' letters, which would need to be co-authored by the Prudential Authority and the FCSA, would be essential to spur the Jibar transition, however, they would not be sufficient to encourage a market-wide transition. Therefore, there would be a need for the SARB to issue a statement that would address all market participants.

8. **Market infrastructure readiness for ZARONIA-based derivatives**

8.1 Mr Ruan Roux noted that the Data Collection and Infrastructure Workstream would request industry bodies' representatives to engage their members on infrastructure readiness. Furthermore, the workstream had prepared an infrastructure readiness questionnaire that would be included in the next iteration of the Jibar-related exposures survey.

8.2 Given the strategy to enable the derivatives market to adopt ZARONIA first, the workstream would intensify engagements with market participants to ready their systems and processes to facilitate ZARONIA-based derivatives transactions. The initial focus would be on engagements with market infrastructure providers that offer clearing services for over-the-counter transactions.

9. **Consultation on market conventions for ZARONIA-based derivatives**

9.1 Mr Gokaldas noted that the white paper on ['market conventions for ZARONIA-based derivatives'](#) would be finalised after engagements with certain market infrastructure providers had been concluded. The feedback received following the publication of the white paper on 20 January 2023 had already been incorporated. Subsequently, it would be necessary to conduct ZARONIA-based test trades with commercial banks and buy-side firms, which would assist the derivative market to assess its infrastructure and operational readiness.

9.2 Mr Gokaldas highlighted the need for historical data, which would be used to analyse the behaviour of ZARONIA relative to other money markets rates such as SARB's repo rate, SAFEX O/N and Jibar. The SARB had initiated the process to collect relevant historical data, spanning over 6.5 years, which would be used to calculate and publish proxy ZARONIA rates.

10. **Update on the MPG work schedule**

10.1 The Legal Workstream had been working on finalising documents concerned with International Swaps and Derivatives Association (ISDA) fallback guidance and the Jibar replacement clause for loan agreements. Furthermore, a working group had been formed to draft the ZARONIA definitions that would be included in the 2021 ISDA Interest Rate Definitions. Also, there were plans to start preparing for an industry forum for the legal fraternity and to initiate the work to map-out the landscape of legal documentation by identifying the various financial products that make use of JIBAR.

10.2 The Cash Market Workstream's primary focus would be on finalising the market conventions for the loan, bond and money markets. The workstream had planned to publish three white papers in September 2023.

10.3 Mr Makoko noted that the Governance and Regulatory Issues Workstream was unpacking their mandate to address regulatory issues and would be engaging the Legal Workstream in that regard. It was envisaged that the initial findings would be presented at the next MPG meeting.

11. **Feedback on the meeting of the Official Sector Steering Group**

11.1 Mr Gininda had attended the Financial Stability Board's (FSB) Official Sector Steering Group (OSSG) meeting, which took place on 2 June 2023. The OSSG was tasked with promoting information sharing and coordinating work between its members, relevant authorities and industry bodies regarding the LIBOR transition. In 2021, most LIBOR panels, including GBP, EUR, CHF and JPY were successfully discontinued. Given the widespread use of USD LIBOR, the cessation of the USD LIBOR was postponed to 30 June 2023 to allow market participants sufficient time

to transition the large stock of legacy contracts. With the end of the USD LIBOR panel on 30 June 2023, the new reference rate landscape would be in place. Consequently, the OSSG would have fulfilled its mandate, and hence, the group would be retired.

- 11.2 Nonetheless, the OSSG would recommend to the FSB to continue to monitor and coordinate evolving reference rate practices and consider financial stability and market functioning impacts. It would be important to signal the continued focus on benchmark reforms as other jurisdictions, including South Africa, continue with their programmes to reform their domestic interest rate benchmarks post the discontinuation of all LIBOR panels.
- 11.3 Some official sector representatives expressed concerns regarding the risks associated with the use of forward-looking term rates and credit sensitive rates, which had recently been created. The International Organization of Securities Commissions (IOSCO) Board had been conducting a review on some of these new benchmarks and would release a report in due course.

12. **Date of the next meeting – 4 August 2023, 09:00 AM**

13. **Closure**

- 1.1 The Chairperson thanked everyone in attendance for their contributions, and there being no further matters for discussion, the meeting was closed.

DG R Cassim

Date

Chairperson:

Market Practitioners Group on the Interest Rate Benchmark Reforms