



South African Reserve Bank

Confidential

Minutes of the meeting of the Market Practitioners Group on Interest Rate Benchmark Reforms held in the 30th floor boardroom of the South African Reserve Bank (SARB), 370 Helen Joseph Street, Pretoria on Friday, 29 November 2019 at 09:00

Minutes No. 2/2019

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
J Boyd	Financial Sector Conduct Authority
Z Parker	SARB
E Hamman	Chair – Governance
A Du Toit	Chair – Risk Free Reference Interest Rate
P Burgoyne	Chair – Transition
D Raju	Chair – Unsecured 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
Z Gininda	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

1. Welcome

- 1.1 The Chairperson welcomed members to the second meeting of the Market Practitioners Group on Interest Rate Benchmark Reforms Committee (MPG or Committee) in 2019.
- 1.2 A quorum was present and the meeting was duly constituted.

.....
Initial

2. Adoption of the agenda

2.1 The agenda was adopted as presented, 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. 1/2019 of the meeting held on 14 June 2019

4.1 The minutes of the meeting held on 14 June 2019 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 from the minutes

5.1 Update on the technical specification paper on selected interest rate benchmarks

5.1.1 It was reported that the SARB aimed to publish a technical specification paper on selected interest rate benchmarks for comment early in 2020. However, prior to the paper being published, it would be forwarded to the members of the MPG for review and comment. The paper would be submitted to the SARB Governors' Executive Committee for consideration during March 2020. It is anticipated that the paper would be published in April or early May 2020.

5.2 Consideration of the appointment of consultants, when required

5.2.1 Mr Parker highlighted that after the presentation by Mr Jourdain at the meeting in June 2019, it was suggested that the various work streams may

.....
Initial

wish to use consultants from industry to assist with their deliberations.

5.2.2 The meeting agreed that the information received had indicated that it would be beneficial to use experts from around the globe, who had the knowledge and experience that could be useful. It was further noted that the value of such advice would be achieved only if the consultants were credible and there would most likely be a related cost for their services, which would have a budgetary implication. The use of consultants would also require careful management to ensure there was no conflict of interest or the perception of a conflict of interest.

5.2.3 Ms Hamman suggested that IOSCO had resources with the necessary expertise and it was unlikely that there would be an associated cost. The Chairperson agreed and suggested that enquiries could be made with other central banks as to what their experiences had been and what information they could share with the MPG and its work streams. The SARB would be undertaking a "study tour" during December 2019 and January 2020 and would report back to this Committee at the meeting in March 2020.

6. Feedback and review of the progress reports of the work streams

6.1 The Chairperson acknowledged that not all of the work streams had made the same progress as yet. The Governance and Data Collection and Infrastructure work streams were waiting for progress from the other work streams. Accordingly, they would not be required to report back to this meeting.

6.2 Ms Hamman reported that the Governance work stream had held an initial meeting and it had been agreed that the work stream would benefit from having a legal resource and somebody from the Financial Markets Department to join the team. Mr Parker would assist in identifying these persons.

6.3 Unsecured Reference Rate work stream

6.3.1 The update and road map from the Unsecured Reference Rate work stream

.....
Initial

was taken as read. Mr Raju reported that a secretariat function had been established for the three reporting work streams and meetings had been held on the same day, which resulted in good participation.

6.3.2 The participants at the work stream meetings indicated a preference for a strengthened JIBAR over the adoption of the proposed hybrid JIBAR, which comingled NCDs and wholesale deposits. Participants had all agreed that a hasty adoption of a new reference rate based largely on wholesale deposits could cause a systemic risk and that an observation period was critical to determine how the deposit data would perform over time. Furthermore, there was a view that the current JIBAR had benefits that the LIBOR did not have, in particular, JIBAR reflected live pricing commitments, whereas LIBOR was based on indicative rates. Also, there was strong governance put in place by the SARB.

6.3.3 It was suggested that JIBAR could be strengthened by effecting measures aimed at increasing its credibility and transparency. To create more credibility it was proposed that contributing banks could increase the pricing commitments to R500 million. Also, transparency would be enhanced by the post-trade reporting of the primary and secondary market activity, which could be reported on trade-date-plus-one (T+1) basis.

6.3.4 The work stream had agreed that a term deposit benchmark should be determined and published. However, there should be a two-year observation period to allow market participants to monitor the curve, volume, price and volatility. It was proposed that a strengthened JIBAR could be used as an interim measure.

6.3.5 The members reflected on various views, opinions and suggestions, which would be taken into account by the work streams as they proceed further with their work.

6.4 Risk-free Reference Interest Rate work stream

6.4.1 The progress report and roadmap for 2020 from the Risk-free Reference Interest Rate work stream was taken as read.

- 6.4.2 Mr Du Toit reported that, in developing its recommendations for the design of overnight reference rates, the work stream had considered the guiding principles from IOSCO, the international approach, and the pragmatic application thereof to the South Africa financial markets. The work stream was in the process of finalising its position on a secured overnight rate and an unsecured (or near risk-free) overnight rate.
- 6.4.3 The advantages of a secured overnight rate were presented, including its potential to lower systemic risk in the financial system, lowering the borrowing costs and increasing price stability, with the Repo rate being the potential fallback rate. The disadvantages would include that the rate would be influenced by the supply and demand dynamics of bank funding, would be more volatile than the 3M-JIBAR, the necessary regulatory reform would be complex and take time and more fluid collateral markets would mean a higher degree of leverage and monitoring by the SARB.
- 6.4.4 The advantages of an unsecured overnight rate was large transactional volumes, with a more reflective rate of money markets in South Africa and lower volatility than the secured overnight rate. The disadvantages were noted as including the lower credibility of the rate due to operational complexities, price distortion that could be caused by regulatory and tactical differentials between counterparties. According to the work stream's view, there was also no viable fallback. The work stream was of the view that monitoring and governance processes would have to be more sophisticated.
- 6.4.5 Mr Du Toit highlighted that a global precedent was emerging for both single and multiple rate reform environments and that the Risk-free work stream was proposing that focus should be on developing both secured and unsecured overnight rates. Multiple interest rate benchmarks from different funding segments in the market would enable broader stability and efficiency in the market, as they inform the appropriate actions from the regulator during market dislocations.

.....
Initial

6.4.6 It was noted that since data from only one bank was used during the deliberations, it would be beneficial to obtain additional information from the industry to obtain a better view.

6.5 Transition work stream

6.5.1 The update and work plan for 2020 from the Transition work stream was taken as read.

6.5.2 Mr Burgoyne agreed to contact SAICA to request them to nominate a representative to sit on the Transition work stream and contribute on auditing matters.

7. **Update on the detailed MPG roadmap**

7.1 A draft MPG roadmap was distributed for review, but remained work in progress at that time and would be updated when the milestones become clearer.

7.2 It was noted that whilst the roadmap could be published on the website,, it would be better to wait until there was clarity on how the reference rate reform work would unfold before committing to any specific dates.

8. **Communications Strategy**

8.1 It was proposed that more work should be done to improve the communication on the reform of interest rates in South Africa and to provide ongoing progress updates as the project developed. It was proposed that a communications work stream should be established, which would be similar to those established in the USA and the UK, who had a work stream dealing with communication and outreach.

8.2 The members agreed with this proposal and the SARB would revert with a suggested structure and membership.

.....
Initial

9. IBOR – Interest Rate Benchmarks

Mr Graham Bruce from True North Partners was welcomed to the meeting.

- 9.1 Mr Bruce gave a presentation entitled “IBOR – Interest Rate Benchmarks – Transitioning to alternative rates”, which included a number of questions and discussion on the South African context and the matters to be considered in the transition process.

Mr Bruce was thanked for his contribution and taking time to assist the MPG with its deliberations and excused from the meeting.

10. Proposed meeting dates for 2020

- 10.1 The proposed meeting dates for 2020 were recorded as follows:-

- Thursday 5 March 2020 at 09:30
- Friday 22 May 2020 at 09:30
- Friday 21 August 2020 at 09:30
- Thursday 26 November 2020 at 09:30

11. Date of the next meeting

- 11.1 Based on the discussion under item 10.1, it was agreed that the next MPG meeting would be held on Thursday, 5 March 2020 at 09:30 at the SARB.

12. Closure

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



DG F Tshazibana

Chairperson:

Market Practitioners Group on the Interest Rate Benchmark Reforms



Date

