



South African Reserve Bank

Market Practitioners Group

Minutes of the Market Practitioners Group meeting held at the South African Reserve Bank in Pretoria on 19 October 2018

Minutes No. 01/2018

Members who attended	Apologies from members
Daniel Mminele (Chairperson), SARB Zakhele Gininda, (Secretariat), SARB Leon Myburgh, SARB Gary Haylett, BASA (Dial in) Gill Rayne, ASISA Jacques Mol, ACTSA <i>By invitation:</i> Zafar Parker, SARB Callie Hugo, SARB Linda Motsumi, SARB Mukelani Nkuna, SARB	Jurgen Boyd, FSCA Bafundi Maronoti (Secretariat), SARB

1. Welcome by the Chairperson

- 1.1. The Chairperson opened the meeting by welcoming members of the Market Practitioners Group (MPG). The Chairperson also acknowledged Mr Haylett who dialled into the meeting.

2. Apologies and finalisation of the agenda

- 2.1. Apologies were noted and the agenda was adopted without any alterations.

3. General discussion: Consultation paper on selected interest rate benchmarks in South Africa

3.1. The Chairperson contextualised the purpose of the MPG within the process of interest rate benchmark reforms in South Africa:

3.1.1. The establishment of the MPG and its work streams marked the second phase in the process of benchmark reforms in the domestic market. It followed the publication of the South African Reserve Bank's (SARB) 'Consultation paper on selected interest rate benchmarks in South Africa' (Consultation Paper) on 30 August 2018. The Consultation Paper was the outcome of a resolution taken by the Financial Markets Liaison Group (FMLG) in October 2016. The deadline for comments and inputs on the consultation paper was initially 26 October 2018. However, through the Banking Association of South Africa (BASA), banks requested an extension of the deadline to 30 November 2018. Given the significance of the reform agenda, the potential impact on domestic financial markets and the necessity for all stakeholders to be on the same page, the extension was granted.

3.1.2. The work on the reform of domestic interest rate benchmarks was in line with global reform efforts aimed at strengthening interest rate benchmarks that underpin the pricing of financial contracts. Furthermore, it was consistent with the SARB's endorsement of coordinated efforts by global regulators and central banks to ensure that interest rate benchmarks are credible, accurate and trusted by financial market participants and consumers at large.

3.1.3. It was envisaged that the MPG (in collaboration with its established work streams) would play a critical role in the final design and adoption of the recommended interest rate benchmarks. While the SARB drafted the consultation paper, the MPG would be required to facilitate the decisions on the benchmarks that would be used as reference interest rates for derivative and other financial contracts as well as for the operationalisation of the recommended benchmarks. The recommendations in this regard would be the responsibility of the appropriate MPG work streams.

- 3.1.4. Consequently, the SARB's role in the reference rate reform process would diminish going forward. However, the SARB would monitor and drive the reform agenda through its involvement in the MPG, which would be chaired by the Deputy Governor responsible for markets.
- 3.1.5. Once the new benchmarks have been implemented and embedded, the MPG and its work streams will be dissolved and the Reference Rate Working Group (RRWG) of the FMLG will assume the responsibility for further work on reference rates.

4. Terms of reference of the MPG

4.1. Purpose of the MPG

- 4.1.1. Mr Hugo introduced the draft Terms of Reference (ToR) of the MPG and sought clarification on section 2 of the said document, which pertains to the purpose of the MPG. It was agreed that the purpose of the MPG would be to facilitate the final decision making on the operationalisation of the interest rate benchmarks as well as the choice of benchmarks, which will be used as reference rates.
- 4.1.2. With regards to section 2.1 of the ToR, it was noted that it would be advantageous to involve the MPG in the process of finalising the consultation paper. The MPG would provide inputs to the SARB Working Group prior to the publication of the final paper. Mr Mol mentioned that this would give the market comfort that early consultation had occurred.
- 4.1.3. Furthermore, members agreed that the mandate of the MPG would be executed by the work streams of the MPG.

4.2. *Scope of work*

- 4.2.1. Ms Raine questioned whether the extent of the MPG's work could include the introduction of industry changes that would effectively transform the manner in which markets operate, e.g. a recommendation that a general collateral repo rate be calculated would require the development of a repo market. Mr Mminele emphasised that the work that would be carried out would need to be comprehensive and may necessitate changes in the way in which markets operate.
- 4.2.2. The SARB envisaged an extensive and fully integrated process that might necessitate market reforms with a parallel process to develop secondary markets, for example the Treasury Bill market, which would be necessary in building a risk-free curve. This would, in turn, inform the construction of a risk-free total return index. As such, this would require an evaluation of current processes and market infrastructure in order to extract maximum benefit from the required fundamental redesign of the money market microstructure. Therefore, the integrated framework would entail major elements, such as the design pertaining to how things would work in terms of benchmark composition, calculation agents, governance structures, and data collection and the finalisation of transitional arrangements for the implementation of new interest rate benchmarks.
- 4.2.3. It was noted that the MPG could also benefit from the experiences of other jurisdictions in their efforts to reform interest rate benchmarks. Mr Myburgh suggested that preparatory sessions aimed at obtaining an understanding of implementation challenges that were experienced by the US and Europe should take place as soon as possible. These could take the form of conference calls with relevant parties. Mr Mminele added that peer learning could also be in the form of fact-finding missions to other jurisdictions with similar mandates.
- 4.2.4. Mr Haylett noted that, given the technical nature of work that must be carried out and in line with international practice, the MPG should draw up a roadmap that would detail exactly how and when projects would take place.

Resolution:

The MPG would provide inputs to the SARB Working Group prior to the publication of the final paper on selected interested rate benchmarks in South Africa in the second quarter of 2019.

5. Purpose and objective of MPG work streams

- 5.1. Mr Myburgh highlighted that the composition of work streams must be adequately representative of the market. Work streams would be required to make decisions with regards to reference rates for future and derivative contracts on behalf of the market. The SARB, as a regulator, should not be making such decisions. However, the SARB would produce a suite of appropriate interest rate benchmarks, from which the work streams may choose.
- 5.2. Members agreed to nominate representatives from their constituencies for the respective work streams. The nominations must be finalised within a period of a month.
- 5.3. There are five work streams that have been identified in the *Draft Terms of Reference of the Work Streams of the Market Practitioners Group* (draft ToR). These include a work stream on:
 - Unsecured reference interest rates;
 - Risk-free reference interest rates;
 - Data collection and infrastructure;
 - Transition; and
 - Governance
- 5.4. It was agreed that the current number of work stream and their related mandates should suffice. However, should changes in the mandates of the work streams and or additional work streams be required, the draft ToR would be amended accordingly.

- 5.5. Members agreed that the MPG work streams would select their own chairpersons. However, given that the composition of the MPG would largely be influenced by the selected chairpersons, there was a need for a process, which would require the MPG to endorse the nomination of a chairperson by the members of a particular work stream. Members agreed that section 3.3.1 of the draft ToR would need to be amended to read to that effect.
- 5.6. Mr Myburgh further highlighted that the SARB would not have the capacity to provide secretarial services to the work streams. Therefore, professional secretarial services would need to be sourced from the private sector. Mr Mol suggested that, in addition to audit firms, consideration should be given to legal firms given their expertise in documentation control and record keeping.
- 5.7. With regards to the role and responsibilities of the Data Collection and Infrastructure work stream, it was noted that the draft ToR must specify that the work stream will also make recommendations on the underlying data infrastructure. Members agreed that section 5.2.3 of the draft ToR would need to be amended to read to that effect.

Resolution:

- i. The MPG work streams would select their own chairpersons. However, the MPG would be required to endorse the nomination of such chairpersons. Section 3.3.1 of the draft ToR must be amended to read to that effect.
- ii. Members of the MPG would nominate representatives from their constituencies for the respective work streams before the end of November 2018.
- iii. Section 5.2.3 of the draft ToR would be amended to state that the Data Collection and Infrastructure work stream will make recommendations on the underlying data infrastructure.

6. Meeting of the Official Sector Steering Group with the National Working Group chairpersons

6.1. The Official Sector Steering Group (OSSG) of the Financial Stability Board (FSB) has requested meetings with the National Working Group representatives on 26 November 2018. Mr Myburgh will attend the meeting as the official sector representative. It was proposed that Mr Haylett would attend as the representative of the banking sector.

Resolution:

Mr Haylett would attend the meeting of the OSSG on 26 November 2018 as the representative of the banking sector.

7. MPG website

7.1. Mr Myburgh emphasised the importance of the MPG and its work stream to adhere to the principles of transparency. Therefore, this will necessitate that the ToR and the agendas and records of proceedings of all meetings be published.

7.2. Mr Hugo demonstrated the MPG web page, which is located on the SARB's website. The documents listed in paragraph 7.1 and other media releases will be published on this site.

7.3. It was recommended that the name of MPG should be changed to the "Interest Rate Market Participants Group" in order to enable easy identification of the forum by the public.

8. General

8.1. No further matters were discussed.

9. Closure

9.1. The Chairperson thanked members for their attendance.

Enquiries:

MPG Secretariat

MPGSecretariat@resbank.co.za