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 Thursday 5 March 2020 at 09:00**

**Minutes No. 1/2020**

**Present:**

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| 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 |
| 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 |

**Apology**:

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| A Du Toit | Chair – Risk Free Reference Interest Rate |

**In attendance:**

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| 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 |
| K Mavundla | SARB Financial Markets Department |
| M Morar | SARB Financial Markets Department |
| E Makgopa | SARB Financial Markets Department |
| SL Reynolds | SARB Group Secretariat |

## 1. Welcome

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

1.2 The apology from Mr Du Toit was noted and there being a quorum present, the meeting was duly constituted

1.3 The Chairperson reported that some members of the SARB Working Group would like to attend the meeting for feedback and information purposes. There was no objection and the three staff members were invited into the meeting from agenda item 6 onwards.

**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. 2/2019 of the meeting held on 29 November 2019**

4.1 The minutes of the meeting held on 29 November 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 <u>Report back from the 2019/20 study tour</u>

5.1.1 Mr Maronoti reported that four SARB staff members had embarked on a global study tour, visiting Singapore, Indonesia, Germany and the United Kingdom and met with several institutions such as the Monetary Authority of Singapore, Bank Indonesia, the European Central Bank (ECB), Barclays,

Deutsche Bank, Bank of England (BOE) and the Financial Conduct Authority.

5.1.2 The discussions covered a range of topics relating to interest rate benchmark reforms, such as institutional arrangements, technical specification of benchmarks and policies central banks included in the technical specifications, the role of administrators, communication, use of consultants etc. The latter issue had been discussed several times at the MPG and central banks in Europe (ECB and the BOE) advised that while they had relied on the services of consultants, these services were provided on a *pro bono* basis. The group also enquired about the main risks with the project and it was highlighted that communication and infrastructure presented the biggest risks. Communication needs to be clear and consistent and the information technology risks related to the data requirements should be carefully managed.

5.1.3 Mr Parker reported on the discussions that took place at the Official Sector Steering Group Meeting he had attended in London on 10 January 2020 and the experiences from the various countries represented at the meeting.

5.1.4 The Chairperson also provided feedback from discussions that took place at the G20 meetings, which were focused on ensuring a transition that would not cause risks to financial stability and any possible risks should be identified and highlighted as soon as possible. The Financial Services Board would be asking each country to report on the steps they were taking to ensure a smooth transition and it was highlighted that it was important to engage with the private sector as part of this process.

5.2 <u>Update on the additional members on the Governance work stream</u>

5.2.1 Mr Gininda reported that Ms Vongani Masondo from the SARB Legal Services Department would join the Governance work stream. Ms Masondo has experience in drafting legislation.

5.3 Report back on the discussions with SAICA

5.3.1 Mr Burgoyne reported that he had communicated with SAICA and the large audit firms and they had agreed to delegate representatives to attend the Transition work stream meetings going forward.

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

6.1 Transition work stream

6.1.1 Mr Burgoyne reported that the Transition work stream had provided an update on the use of external consultants and considered a presentation on the transition across major jurisdictions. The bulk of the work was still to be done. In response to an enquiry, it was noted that performance benchmarks would be considered when it was clear which reference rate would be used.

6.2 Governance work stream

6.2.1 Ms Hamman reported that the Governance work stream had held its inaugural meeting and had been waiting for the other work streams to make progress. Ms Hamman advised that the work stream was now in a position to start its work and that meetings would be scheduled as soon as possible.

6.3 Data Collection and Infrastructure work stream

6.3.1 Mr Roux reported that the Chairpersons of the work streams had met to consider when they would be in a position to hand over a book of work to the Data Collection and Infrastructure work stream. A meeting of the work stream had been scheduled to be held on 30 March 2020 and an agenda would be circulated in due course.

6.4 Risk Free Reference Rate work stream

6.4.1 The report from the Risk Free Reference Rate work stream was taken as

read, together with a short note distributed by Mr Du Toit as feedback for the meeting.

6.4.2 It was reported that a special meeting had been held to consider proposed technical documents, specifications and methodology for the two proposed reform rates, namely; a “near-risk free” unsecured overnight rate and a “risk free” secured overnight rate.

6.4.3 It was noted that there was strong support from the industry to use an overnight reference rate, as liquidity was exceptionally strong. It was generally agreed that a collateralised market with a secured rate was ultimately the desired approach.

6.5 Unsecured Reference Rate work stream

6.5.1 The report from the risk based work stream was taken as read and Mr Raju highlighted the pertinent items.

6.5.2 A draft Risk Based Position Paper had been drafted in January 2020 and was circulated for comment by the work stream members, who were expected to approve the final position paper in March 2020.

6.5.3 A number of measures to strengthen existing benchmark interest rates had been identified as well as a need for new risk-based benchmarks to further enhance transparency.

6.5.4 The work stream was in the process of formulating data collection requirements that it would recommend for hand over to the data and infrastructure work stream.

6.5.5 The broad consensus appeared to be a transition to a risk free overnight rate with little support from the industry for a hybrid Jibar.

## 7. MPG roadmap

7.1 The Chairperson recorded that the SARB had considered the preliminary position papers that had been made available during November 2019 and having engaged with the work streams, it was important to provide the SARB's preliminary perspective on the reform project. A formal view would be communicated to the MPG once it had been endorsed by the executive of the SARB, to ensure that there was alignment.

7.2 The Risk Free work stream had proposed two candidates for overnight rates, namely; the South African Unsecured Overnight Rate and the South African Secured Financing Rate. The SARB supported the adoption of the unsecured overnight rate.

7.3 At the previous MPG meeting, there was a view that both overnight rates should be published, however, there was some concern that they would be competing for the same pool of liquidity and may hinder the adoption of the unsecured rate. This matter would require further deliberation.

7.4 With respect to Jibar, the SARB believes that in its current form, as well as in its strengthened form (as proposed by the Unsecured Reference Rate work stream), it would not be sustainable over the long-term. This view was informed by the continued reliance of banks on secured funding, as well as by structural changes in derivatives markets requiring greater use of collateral and the extensive reliance on Jibar as a reference for financial contracts in South Africa. It is not in the interest of all stakeholders to place reliance on a reference rate whose sustainability over the long-term is questionable.

7.5 In line with the IOSCO principles, the SARB held a view that the underlying market on which the benchmark is based must have sufficient volumes of transactions. The recommendations with respect to enhancing pricing commitments, as well as post-primary and secondary trade transparency were welcomed and would contribute to the credibility of the benchmark. The SARB would consult widely and ensure that the governance framework for Jibar

included measures that had legislative legitimacy.

7.6 The SARB expected to engage broadly on the question of collecting data required to enable the proposed reforms and to ensure that the benchmarks were underpinned by relevant and sufficient data and would work closely with the Data Collection and Infrastructure work stream to this end.

7.7 The Chairperson noted that the SARB would like to see a similar structure in the format of the position papers to be presented during May 2020, as follows:-

- Clear statement of the mandate of the work stream
- Clear statement of the problem the work stream is solving for
- Guiding principles that form the basis of choices and recommendations made by each work stream
- Alternative benchmark rates considered by the work stream
- Key recommendations to the MPG
- Conclusions.

**8. Technical specification paper on selected interest rate benchmarks**

8.1 The Statement of methodology and policies governing the South African Reserve Bank administered interest rate benchmarks was taken as read.

8.2 It was highlighted that the draft paper was circulated to MPG members for consideration. The paper would be published as an official document after it had been approved by the Governor's Executive Committee.

8.3 Mr Maronoti highlighted some of the main issues and agreed to accept any further comments on the draft document until 15 March 2020.

**9. Proposed MPG Communication work stream**

9.1 Mr Gininda presented a proposal on the constitution of the MPG Communications work stream and its role and responsibility. The document was taken as read and prepared for discussion at the meeting.

9.2 It was proposed that this work stream should not have voting rights as the members would only be approving and establishing the appropriate communications to ensure a consolidated and clear message was disseminated. The work stream would include representatives from the SARB Communications Division, academia and a marketing agency.

9.3 It was highlighted that the communication should be standardised across the banks so the retail sector would need to be engaged throughout the process. There would also need to be a high level of coordination with the other work streams.

9.4 The SARB would identify suitable persons to establish and be a part of the Communications work stream and would provide feedback at the next meeting.

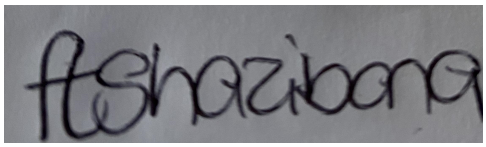
**10. Date of the next meeting**

10.1 It was agreed that the next MPG meeting would be held on Friday 22 May 2020, at 09:00 at the SARB.

**11. Closure**

11.1 The Chairperson thanked everyone for their attendance and contributions to the discussions.

11.2 There being no further matters for discussion, the meeting was closed.



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**DG F Tshazibana** **Date**
**Chairperson:**
**Market Practitioners Group on the Interest Rate Benchmark Reforms**