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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](http://www.resbank.co.za)



SOUTH AFRICAN RESERVE BANK

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Financial Markets Department

## **Record of proceedings of the Financial Markets Liaison Group meeting held via MS Teams on 22 October 2022**

### **1. Overview**

1.1 The Financial Markets Liaison Group (FMLG) meeting discussed the following key issues:

- 1.1.1 An update on the risk of grey listing of South Africa by the Financial Action Task Force (FATF)
- 1.1.2 The impact of loadshedding on financial stability in South Africa
- 1.1.3 The risks associated with the normalisation of global policy rates
- 1.1.4 Revised Jibar code of conduct
- 1.1.5 Possibility of creating a curve and liquidity within the Floating Rate Note by National Treasury (NT)
- 1.1.6 Progress reports from the FMLG subcommittees and the South African Foreign Exchange Committee

### **2. Summary of discussions**

#### **2.1 An update on the risk of grey listing of South Africa by the FATF**

2.1.1 If South Africa was to be grey listed, it would be placed among a group of high-risk entities and would be subjected to increased due diligence by international counterparties. Access to funding may be a challenge during unfavourable market conditions and entering new banking relationships could be more onerous.

2.1.2 It was noted that the South African Government had assembled an inter-departmental committee to address or remediate the deficiencies identified in the evaluation of the FATF report, including a raft of amendments to legislation that had

been taken to Parliament. The SARB was working on addressing all the shortcomings that were related to the financial sector.

## **2.2 The impact of loadshedding on financial stability in South Africa**

2.2.1 The South African financial system was highly dependent on the telecommunications network, which was reliant on power supply. Telecommunication companies might face the challenge of providing network services in the event of prolonged loadshedding as their back-up batteries had a short life span.

2.2.2 It was also noted that a total blackout, which might take an estimated two weeks to recover the entire grid, would trigger a systemic event. Various mitigating measures had been considered, which included ensuring that the financial sector had a coordinated approach to procure diesel for their own operational needs, as well as having a plan in place to orderly close and re-open markets should the need arise.

## **2.3 The risks associated with the normalisation of global policy rates**

2.3.1 It was noted that the United States (US) economy had been facing an increased probability of falling into a recession largely owing to the tightening of monetary policy by the Federal Reserve Bank.

2.3.2 Among the spill-over risks was that the ZAR would depreciate, and South African government bond yields would increase. A US recession would have negative implications for global growth and subsequently South African growth and fiscal risks.

## **2.4 Revised Jibar code of conduct**

2.4.1 The FMLG noted amendments to the Jibar Code of Conduct. Issues that received attention included the bulking up of trades, pricing of Negotiable Certificate of Deposits (NCDs) and linked NCDs, flashing of screen prices, ensuring alignment between the Code and operating rules, and the exclusion of NCDs with non-standard maturities and forward starting NCDs.

## **2.5 The possibility of creating liquidity and a curve within the floating rate note by National Treasury**

2.5.1 NT indicated that it had no plans to create a curve in the floating rate note (FRN) mainly because of the large maturities of government liabilities falling due in the next few years.

2.5.2 NT, however, indicated that it may consider issuing a short-term FRN if the fiscal position improved.

## **2.6 Feedback from the Fixed Income and Derivatives Sub-committee**

2.6.1 The Fixed Income and Derivatives Sub-committee had worked with the Banking Association of South Africa to improve the liquidity in South Africa's corporate bond market. Among the factors under consideration for the improvement in the liquidity in the corporate bond market were:

2.6.2 mandated regulatory reforms with respect to the treatment of credit collateral in repos;

2.6.3 screen pricing by banks for different credit papers;

2.6.4 the establishment of an electronic trading platform for corporate bonds; and

2.6.5 the establishment of a third-party mark-to-market platform that would aid in transparency for end-of-day mark-to-market.

## **2.7 Feedback from the Money Market Sub-committee**

2.7.1 The project of improving liquidity in the secondary market for Treasury Bills (TBs) had begun. The SARB and NT engaged market participants and Strate on the possibility of reducing the settlement cycle. The Money Market Sub-committee (MMS) had also been looking into the possibility of establishing a panel of market makers.

## **2.8 Feedback from the South African Foreign Exchange Committee**

2.8.1 The South African Foreign Exchange Committee (SAFXC) continued to engage market participants in the SADC region to encourage them to endorse the FX Global Code.

## 2.9 The working group on the SARB's proposed directive on liquidity cover ratio

2.9.1 The FMLG considered a report by its working group on the SARB's new directive on liquidity cover ratio where foreign high-quality liquid assets (HQLA) would no longer qualify in the determination of domestic HQLA. The report covered the role played by foreign HQLA in the South African financial system.

Enquiries:

Mr E Makgopa

Edwin.Makgopa@resbank.co.za

Secretariat of the FMLG

### Attendance of the FMLG meeting 22 October 2022

<b>Members in attendance</b>	
Dr Rashad Cassim, (FMLG Chairperson), SARB	<u>By invitation</u>
Edwin Makgopa, (Secretariat), SARB	Philadelphia Makhanya, SARB
Mpumi Ngwenya, (Secretariat), SARB	Henk JansevanVuuren, SARB
Zafar Parker, SARB	Therence Mokake, IBA
Samantha Springfield, SARB	Walter de Wet, Nedbank
Parin Gokaldas, ABSA Capital	Rushdi Edries, SARB
Heath Beckley, FI&DS	Gary Heylett, BASA
Lourens van Rensburg, Investec	Bhulesh Singh, FirstRand
Clive Sindelman, Investec	Terry Msomi, NT
George Kerby, Nedbank	Jonathan Burnett, ABSA Capital
James Glover, Nedbank	
Theo Thomas, RMB	
Douglas Hendry, Standard Bank	<u>Apologies from members</u>
Richard de Roos, Standard Bank	Kweku Bedu-Addo, IBA
Trevor Starke, ACTSA	Nicola Brink, SARB
Gill Raine, ASISA	Tim Masela, SARB
Victor Mphaphuli, ASISA	Garth Klintworth, ABSA Capital
Anton Gildenhuys, ASISA	Andries du Toit, FirstRand
Richard Treagus, ASISA	Mark Brtis, BASA
Nishan Maharaj, ASISA	Ismail Momoniat, NT
Bashier Omar, ASISA	Duncan Pieterse, NT