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Financial Markets Department

Minutes of the meeting of the Market Practitioners Group on Interest Rate Benchmark Reforms held via MS Teams on Friday 1 July 2022 at 09:00

Minutes No. 03/2021

Present:

R Cassim	Chairperson – Deputy Governor of the SARB
G Haylett	Banking Association of South Africa
J Mol	Association of Corporate Treasurers of Southern Africa (ACTSA)
A Ludin	Financial Sector Conduct Authority (FSCA)
Z Parker	SARB – Chair: Communications Workstream
P Burgoyne	Chair – Transition Workstream
R Roux	Chair – Data Collection and Infrastructure Workstream
G Raine	Association for Savings and Investment South Africa (ASISA)
K Engel	Chair – Tax and Accounting Workstream
C Van de Walt	Chair – Legal Workstream
P Gokaldas	Chair – Derivatives Workstream
A Du Toit	Chair - Risk-free and Term Reference Rates Workstream
E Hamman	Chair - Governance and Regulatory Issues Workstream
M Phungo	SARB Financial Markets Department

In attendance:

Z Gininda	SARB Financial Markets Department
B Maronoti	SARB Financial Markets Department
S Springfield	SARB Financial Markets Department
N Hoosenmia	SARB Financial Markets Department
N Fourie	SARB Business Solutions and Technology Department

5.1.1 Ms Phungo reported that the *Market Practitioners Group Work Stream Terms of Reference* (ToR) had been updated to include all input received from the workstreams. The revised TOR were distributed to all members of the MPG for ratification. The signed copy of the ToR would be posted on the MPG webpage.

5.2 **Jibar-related exposures survey**

5.2.1 Mr Gininda reported that a comprehensive set of results would be shared with the MPG members and workstreams in due course.

6. **SAFEX Overnight Rate – JSE presentation**

6.1 Mr Riba presented the Johannesburg Stock Exchange's (JSE) perspective on the implications of the Financial Sector Conduct Authority's (FSCA) draft Benchmark Regulation and Conduct Standard and the MPG's initiative to reform reference rates on the Interest Rate on Margin, which is commonly referred to as the SAFEX Overnight Rate (SAFEX O/N). He noted that the JSE calculates and publishes SAFEX O/N primarily to enable market participants to observe the interest rate that is applicable to initial margin balances for risk management purposes. It was not the JSE's intention that SAFEX O/N should be used widely as a reference rate, nor be construed as the provision of a benchmark, which would subject it to the draft Conduct Standard's prescriptions once promulgated. Consequently, the JSE was of the view that SAFEX O/N should not be affected by the reference rate reform initiatives.

6.2 Nonetheless, it was argued that the MPG would need to consider the way SAFEX O/N was used by market participants. The rate was widely referenced in Credit Support Annexes that facilitate collateral arrangements in over the counter (OTC) derivative contracts, while Jibar was used as a discount rate to value the contracts. It would be beneficial if a single rate were to replace both SAFEX O/N and Jibar to align the remuneration of the collateral and the valuation of the instruments. Therefore, the treatment of SAFEX O/N was an important factor for the derivatives market's transition path. The Transition

Planning and Co-ordination Workstream's (TPCW) qualitative survey would be used to obtain further insights from other users of SAFEX O/N. It was also suggested that the SARB draft a position paper on the matter, which could be used to engage market participants and request for their input. The position paper could include the Short-Term Fixed Interest (STeFI) index, which is widely used to benchmark the performance of money market funds.

7. Governance and regulatory issues workstream

7.1 Ms Hamman presented on the Governance and Regulatory Issues Workstream's (GRIW) high level plan and provided an update on the Benchmark Regulation and the draft Conduct Standard. The FSCA had begun consolidating the public comments regarding the draft Conduct Standard and would engage industry bodies to discuss some of the comments further. The regulatory framework for benchmarks would be finalized after the legislative reforms concerning the Conduct of Financial Institutions (COFI) Bill and the Financial Market Act were complete. Under the COFI bill, the FSCA would impose Conduct Standards on contributors (reporting institutions) of financial benchmarks. Furthermore, prior to the implementation of ZARONIA and the cessation of Jibar, the provisions contained in the draft Conduct Standard dealing with the cessation of a benchmark would also be considered.

7.2 It was highlighted that although the Conduct Standard would not apply to central banks, the SARB, as the administrator of ZARONIA, would need to espouse the provisions contained in the draft Conduct Standard as they were aligned to the International Organization of Securities Commissions (IOSCO) Principles of Financial Benchmarks.

7.3 In terms of next steps, the GRIW would be reconstituted to consider its expanded mandate, including the regulatory issues that could arise during the Jibar transition. The GRIW would continue to provide support and guidance on the governance framework for the SARB-administered benchmarks and perform a gap analysis for the SAFEX O/N against the requirements of

IOSCO principles and the draft Conduct Standard.

- 7.4 The SARB aimed to finalize the governance framework for ZARONIA during the market observation period. This would include publishing a ZARONIA Code of Conduct that would impose certain obligations on reporting institutions. As such, the SARB had invited reporting institutions to nominate persons that would represent them in the GRIW and provide input to the governance framework.

8. Derivatives Workstream

- 8.1 Mr Gokaldas tabled the Derivative Work Stream's (DWS) foundational phase activities. In particular, the focus areas were on completing the review of the Jibar-related exposures survey, initiating the design of derivative products and market conventions, and the production of relevant data analytics.

- 8.2 The DWS outlined two broad items that would need to be considered by the MPG Workstream: firstly, the proposal to administer the refined quantitative survey to commercial banks which would serve as a proxy representation for the broader market and secondly, if the derivative market product conventions should be opened for market consultation. It was suggested that the survey should be divided into two parts; firstly, one which would include the participation of all distinct entities as per the first iteration of the survey and secondly, one which would focus on derivative activities for commercial banks. However, it was noted that the division of the survey would exclude derivative activities that were not visible in the banking sector and that a broad-based approach would be more ideal.

- 8.3 It was agreed that the DWS and the SARB would finalize the dynamics and structure of the quantitative survey, the observation period for ZARONIA would be extended to a longer period to capture market dynamics; and the inclusion of market participants for the derivative market product conventions would be effective and that the DWS would engage with the CWS in drafting and publishing documentation that would be distributed for market participation.

- 8.4 The DWS aimed to increase engagements with other workstreams, whose output would be essential for the DWS' work program. Notably, the Data and Infrastructure Collection Workstream would need to address the pre-conditions for building and establishing a credible reference rate. These pre-conditions included refinements of previously polled 5-year historical data collected from the four largest banks and the JSE, bridging the data collection gap to ensure there is consistency and alignment between the historical data and live data that would be collected during the publication of ZARONIA.
- 8.5 There were plans to engage with other MPG workstreams, in particular the Communication Workstream (CWS) which would assist with providing input into the production of appropriate market educational documentation. Mr Gokaldas also highlighted potential challenges to the DWS effort, which included the Monetary Policy Implementation Framework (MPIF) which focused on potential implications for ZARONIA versus Jibar and spread adjustments determination, SAFEX (which was deliberated during the JSE presentation) and forward-looking Term rates which focused on what would be the required tenor and the depth of market activity to ensure compliance with IOSCO Principles for Financial Benchmarks.

9. Transition Planning and Coordination Workstream

- 9.1 Mr Burgoyne highlighted the Transition Planning and Co-ordination Workstream's (TPCW) recent activities and outlined the key milestones on the tentative transition plan. The TPCW requested the MPG to provide its final input and approval for the qualitative survey and the establishment of industry task forces, which would play an important role of administering the survey. and summarising the key findings. It was noted the DWS would be requested to complete the survey first.
- 9.2 It was noted that an orderly Jibar transition would require the MPG to build confidence around market adoption of ZARONIA and have a good understanding of Jibar use cases, including the use of Jibar offshore, which

was not addressed by the quantitative survey. Furthermore, it would require the MPG to identify key regulatory, accounting, and tax barriers that could impede the transition. Market infrastructure was expected to play a critical role, and hence, it required the MPG to focus its attention to address it. Finally, as previously noted, constant communication would be of paramount importance to ensure that market participants were kept informed during the transition.

- 9.3 Mr Burgoyne stressed the need to review the current transition milestones that may no longer be possible to achieve within the same timeframe. This included the discontinuity of Jibar issuances in 2023, which depended on the ZARONIA observation period commencing early in 2022. Also, the SARB may need to consider what a realistic cessation date for Jibar would be once all relevant data and information had been analysed. The SARB Working Group needed to commence with industry engagements to provide clarity on the Jibar cessation and observation period for ZARONIA.

10. General

- 10.1 Mr Parker informed members that the MPG webpage had gone live on the SARB website and requested members to provide feedback and suggestions regarding the content and design of the webpage. Furthermore, members were requested to consider whether the CWS should increase awareness about the MPG's agenda and activities.

11. Next meeting

- 11.1 The next MPG meeting was scheduled to take place on Friday, 23 September 2022 at 09:00 AM.

12. Closure

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



DG R Cassim

19 October 2022

Date

Chairperson:

Market Practitioners Group on the Interest Rate Benchmark Reforms