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File ref. no.: 11/26/18/1

Financial Markets Department

Minutes of the meeting of the Market Practitioners Group on Interest Rate Benchmark Reforms (MPG) held via MS Teams on Friday, 6 October 2023 at 09:00

Minutes No. 04/2023

Present:

R Cassim	Chairperson – Deputy Governor of the SARB
J Mol	Association of Corporate Treasurers of Southern Africa (ACTSA)
G Raine	Association for Savings and Investment South Africa (ASISA)
G Haylett	Banking Association of South Africa
P Gokaldas	Chair – Derivatives Workstream
A Du Toit	Chair – Risk-free and Term Reference Rates Workstream
P Burgoyne	Chair – Transition Workstream
Z Parker	SARB: Chair – Communications Workstream
M Shongwe	SARB: Chair – Legal Workstream
P Mananga	SARB Prudential Authority

In attendance:

B Maronoti	SARB Financial Markets Department
Z Gininda	SARB Financial Markets Department
N Hoosenmia	Secretariat – SARB Financial Markets Department

By invitation:

N Makoko	Acting Chair – Governance Workstream
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Apologies:

O Makhubela	Financial Sector Conduct Authority (FSCA)
R Roux	Chair – Data Collection and Infrastructure Workstream

1. **Welcome**

- 1.1 The Chairperson welcomed members to the fourth meeting of the Market Practitioners Group on Interest Rate Benchmark Reforms (MPG or Committee) in 2023.

1.2 There being a quorum present, the meeting was duly constituted.

2. **Adoption of the agenda**

2.1 The agenda was adopted as proposed, with no amendment.

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. 3/2023 of the meeting held on 4 August 2023**

4.1 The minutes of the meeting held on 4 August 2023 were accepted as a true reflection of the deliberations and were approved for signature by the Chairperson. The signed minutes would be published on the MPG page on the SARB website.

4.2 There was only one item under matters arising that had been carried over from the prior MPG meeting. This related to the ZARONIA Code of Conduct discussed under agenda item 5.3.

5. **ZARONIA observation period cessation, infrastructure readiness and key milestones related to ZARONIA publication**

5.1 **ZARONIA observation period cessation**

5.1.1 Mr Zakhele Gininda indicated that the end of the ZARONIA observation period and the endorsement of the rate for use in financial contracts would likely take place at the start of November 2023. This aligned with the MPG's decision that the observation period would be a period of one full year. The SARB Working Group were satisfied with the ZARONIA calculation methodology, which would remain unchanged. Furthermore, the SARB was operationally ready to meet the 10h00 publication time every business day. It was noted that on rare occasions, where submissions or technological difficulties prevented the accurate determination of

ZARONIA for publication at 10h00, the SARB may republish the rate at 12h00.

- 5.1.2 It was noted that in the early stages of the ZARONIA observation period, there were instances where data from reporting entities were submitted late and thus were not included in the rate calculation. The MPG agreed that the published rates that were affected by late submissions should be restated to ensure that the historical record reflected all relevant transactions. Post the endorsement announcement, there would not be any restatements of historical ZARONIA rates.
- 5.1.3 Mr Gininda highlighted that the development work on compounded ZARONIA period averages and index was at an advanced stage. The SARB Working Group had incorporated the feedback received at the last MPG meeting, which recommended that the ZARONIA index should be published with additional decimal points to improve its precision. The index would be published up to 12 decimal places. Nonetheless, the SARB Working Group had finalised the calculation methodology and anticipated that the SARB would commence publishing the index and compounded averages before the end of 2023.
- 5.1.4 Discussions with reporting entities regarding the widespread adoption of Legal Entity Identifiers (LEI's) were ongoing. The work on LEIs would be prioritised after the ZARONIA observation period had ended.

5.2 **Market infrastructure and operational readiness**

- 5.2.1 Mr Parin Gokaldas highlighted that engagements with market infrastructure providers had gained momentum, with derivatives clearing eligibility the most critical item that was discussed. It was highlighted that central derivatives clearing is a crucial component to build liquidity and trust from market participants. It was recommended that formal communication (from the SARB to infrastructure providers) should take place to highlight the criticality of meeting timelines. There is a risk that if central clearing houses are not comfortable with clearing of ZARONIA derivatives, this will have a negative impact on transition timelines.

5.3 Governance and control framework

- 5.3.1 Mr Nkosi Makoko provided feedback on the Governance and Regulatory Issues Workstream's position paper regarding the governance arrangements for ZARONIA. The proposed recommendations included key provisions that could be included in a ZARONIA Code of Conduct and aimed to ensure the integrity of benchmarks. Workstream members were given an opportunity to provide further input to the position paper and none had been received. Nonetheless, there were no objections received from workstream members on the content of the position paper.
- 5.3.2 Mr Zakhele Gininda noted that the SARB Working Group would publish the SARB Money Market Data Collection Requirements (commonly referred to as Reporting Instructions). Reporting Instructions articulate the obligations of commercial banks for reporting actual transactions to the SARB daily as well as the control measures that should be in place within each commercial bank. In addition, the [‘Statement of methodology governing interest rate benchmarks’](#) that had been published in draft mode would be published in final form on the MPG webpage. These two documents formed the primary instruments that governed the determination and publication of ZARONIA, while the Reference Rate Oversight Committee (RROC) had supervisory oversight over ZARONIA. The proposed ZARONIA Code of Conduct would effectively summarise the key provisions contained in these documents to make easier for market participants to understand the governance and control framework – however, it would not be the primary instrument that defined the obligations of the reporting institutions and the benchmark administrator.
- 5.3.3 The Chair opened the floor to questions following Mr Makoko's update on the Governance and Regulatory Issues Workstream. Mr Parin Gokaldas highlighted prior MPG discussions related to the review of more broader Benchmark Regulations. Mr Gokaldas noted the risk of making further interest rate benchmark changes (for example, changes to the Prime lending rate), and requested that the Governance Workstream carefully consider the large scale and administrative burden of such changes in any future deliberations.

6. Presentation of regulatory impact survey results

- 6.1 Mr Nkosi Makoko presented the results of an industry wide survey that was administered by the Governance and Regulatory Issues Workstream. The survey had two main questions. The first question enquired about the regulatory and legislative implications that would be impacted by reference rate reforms. The second question requested respondents to indicate their ideal manner of dealing with legacy contracts.
- 6.2 Responses were primarily received from the local banking sector and categorised according to the expected impact on the applicable legislation and whether the expected impact was already being considered by current workstreams or the SARB. Some of the legislation that were classified as being highly impacted included the Financial Markets Act, National Credit Act, JSE Derivatives Rules, and the JSE Listing Requirements – as well as tax legislation.
- 6.3 Regarding the insurance sector, it was highlighted that further work would need to consider whether the reforms would have a marked impact on capital requirements, valuation methodologies, and hedge accounting.
- 6.4 Regarding collective investment schemes, Board Notice 90 was widely reported as the regulatory instrument that could be most impacted by reference rate reform, specifically the limitations on money market instruments.
- 6.5 Retirement fund respondents had flagged Conduct Standards for Investments in Derivative Instruments for Pension Funds and Regulation 28 as legislation that could potentially be impacted. Credit providers had flagged certain sections in the National Credit Act as legislation that will be impacted. Further details on the exact manner that all potential legislation will be impacted will be made available in the form of a report.
- 6.6 The second portion of the survey focused on dealing with legacy contracts. Mr Makoko had provided feedback on the responses received from participants, highlighting that some concerns are already being addressed by the other MPG workstreams (such as the Derivatives and Legal Workstreams). One of the most important items flagged in the survey related to Safe Harbour legislation that would

protect entities from litigation due to transition. This item will be addressed by the Governance and Regulatory Issues Workstream. It was noted by Mr Makoko that some of the other responses received through the survey contained potentially proprietary information, and thus Governance Workstream members preferred that the direct responses not be circulated widely to Governance Workstream members but rather be considered by the FSCA only.

- 6.7 Ms Gill Raine raised a concern related to the limited responses received from asset managers. She would engage Mr Makoko on how they could potentially improve the reach of the survey across the asset management industry.
- 6.8 The Governance and Regulatory Issues Workstream would engage the Transition Planning and Coordination Workstream to ensure that timelines considered the impact on legislation. Furthermore, the workstream would share the survey results related to legacy contracts with the Legal Workstream to provide their input.

7. **Progress on derivatives market foundational activities**

- 7.1 Mr Parin Gokaldas provided feedback to the MPG on the derivatives test trades exercise. The first round of test trades conducted amongst domestic bank participants were successful. It was noted that attempts were previously made to liaise with international banking participants, however more work was needed in order to have them participate in future derivative workstream activities.
- 7.2 Mr Gokaldas provided an overview on the formulation of a ZARONIA First project plan. Observations from SONIA and SOFR First initiatives highlighted that they operated through a phased approach, which could also work for the local market, commencing with linear derivatives followed by non-linear derivatives. It was emphasised that regulatory bodies' communication to the market would be crucial throughout the transition period.
- 7.3 The Derivative Workstream would align its future work plans with the Communications Workstream and the Transition Planning and Coordination Workstream. It was noted that future focus areas for the Derivatives Workstream included the ISDA cessation trigger, Credit Adjustment Spread calculations, Non-Linear Derivative Conventions and the harvesting of term-reference rates.

8. **Need for forward-looking term reference rates and a ZARONIA-based yield curve**

8.1 Mr Andries du Toit provided feedback on the three technical papers covering market conventions for ZARONIA-linked cash market products that had been released for public comment. The Cash Market Workstream had planned to incorporate the comments and finalise the papers by the next MPG session.

8.2 Some market participants had expressed their need for a forward-looking term reference rate. However, it was noted that the scope of use of these term reference rates should be limited, in order to not dilute the intended impact of ZARONIA.

8.3 The Cash Market Workstream tabled a request for the MPG to extend its mandate to include additional work on the construction of a yield curve. The MPG agreed that the workstream may proceed with the work and liaise with the Derivative Workstream for their input.

9. **Implications for the MPG's transition roadmap**

9.1 Mr Paul Burgoyne provided feedback on the indicative MPG transition timelines and milestones. It was noted that there were minor changes to the previously shared timelines. However, there were no changes made to the ultimate cessation date.

9.2 It was noted that the required legislative changes and the time it would take clearing houses to get ready to support the adoption of ZARONIA could negatively impact the transition timelines. In particular, the introduction of safe harbour regulatory instruments that would be needed to facilitate legacy contracts posed a risk as the process of enacting new legislation may take a long period of time. An assessment would need to be made as to whether the Jibar cessation would fall under primary or subordinate law. This would be treated as a matter of priority that would be addressed by the Legal Workstream and the Governance and Regulatory Issues Workstream.

- 9.3 It was noted that the ISDA Fallback Protocols should first be implemented before cessation can take place. The protocols are to be agreed by November 2024 and then implemented by December 2025. The cash market fallback methodology is to be agreed by June 2025, approximately six months after the ISDA fallbacks methodology is agreed.
- 9.4 The formal announcement about the Jibar cessation will crystallise the implementation of credit adjustment spreads that could be used in contracts. Thus, it was important that sufficient data was made available to ensure the spread could be accurately calculated. There was a possibility of earlier cessation of some Jibar tenors, with “no new Jibar” to be implemented by March 2026.
- 9.5 Mr Burgoyne suggested that the SARB target January 2024 to communicate to the market a three-year transition period, with final, expected Jibar cessation date to be some time in December 2026. Mr Andries du Toit highlighted that any communication with the market will be a firm commitment, with significant regulatory dependencies.

10. **MPG work schedule**

- 10.1 Mr Mluleki Shongwe highlighted that the Legal Workstream had held an industry forum webinar on 12 September 2023 with participants from various institutions. A recording of the webinar had been posted on the [MPG webpage](#). At the next MPG meeting, Mr Shongwe would provide feedback on the results of a survey that was administered post the webinar.

11. **General**

- 11.1 There were no further items under the General discussion.

12. **Date of the next meeting – 5 or 7 December 2023, 12:00 PM**

- 12.1 It was noted that the MPG meeting scheduled for 1 December 2023 would be moved to 5 or 7 December based on member availability.

13. Closure

- 13.1 The Chairperson thanked all attendees for their contributions, and there being no further matters for discussion, the meeting was closed.

DG R Cassim

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