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Financial Markets Department

Minutes of the meeting of the Market Practitioners Group on Interest Rate Benchmark Reforms (MPG) held via MS Teams on Friday, 7 December 2023 at 09:00

Minutes No. 05/2023

Present:

R Cassim	Chairperson – Deputy Governor of the SARB
G Raine	Association for Savings and Investment South Africa (ASISA)
G Haylett	Banking Association of South Africa (BASA)
P Gokaldas	Chair – Derivatives Workstream
A Du Toit	Chair – Risk-free and Term Reference Rates Workstream
P Burgoyne	Chair – Transition Workstream
E Hamman	Chair – Governance Workstream
Z Parker	SARB: Chair – Communications Workstream
R Roux	SARB: Chair – Data Collection and Infrastructure Workstream
M Shongwe	SARB: Chair – Legal Workstream

In attendance:

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

By invitation:

N Makoko	Financial Sector Conduct Authority (FSCA)
O Eybers	Financial Sector Conduct Authority (FSCA)

Apologies:

O Makhubela	Financial Sector Conduct Authority (FSCA)
J Mol	Association of Corporate Treasurers of Southern Africa (ACTSA)
P Mananga	SARB Prudential Authority

1. **Welcome**

1.1 The Chairperson welcomed members to the fifth 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. 4/2023 of the meeting held on 6 October 2023**

4.1 The minutes of the meeting held on 6 October 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 regulatory instruments that would be required to manage tough legacy contracts following the cessation of Jibar. The issue was discussed under agenda item 10.

5. **Endorsement of ZARONIA post the observation period and publication of compounded ZARONIA.**

5.1 Mr Zakhele Gininda noted that the end of the ZARONIA observation period and the endorsement of the rate for use in financial contracts was announced on 3 November 2023. This aligned with the MPG's decision that the observation period would be a period of one full year. Furthermore, the SARB was operationally ready to meet the 10h00 publication time every business day as per the draft statement on methodology for ZARONIA. 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.

5.2 Mr Gininda noted that the compounded ZARONIA period averages and index were also being published daily. This would assist market participants to acquaint themselves with backward looking term rates. Ms Gill Raine had highlighted that there was an expression of interest (at an ASISA session) for term rates that aligned to the recommended market conventions. This would require the SARB to build 'calculators' to enable this functionality. Ms Raine would take these discussions forward with Mr Ruan Roux and Mr Gininda.

6. Results of latest Jibar-related exposures [quantitative] survey

6.1 Mr Naweed Hoosenmia provided feedback on the latest Jibar-related quantitative exposure survey. The survey was disseminated to local and foreign banks and insurers through the SARB Prudential Authority (PA), requesting data on all assets, liabilities and derivatives that reference Jibar (as at 30 June 2023). Mr Hoosenmia noted that commercial banks had a gross outstanding exposure of R46.7 trillion, which reflected a marked increase since the prior survey date (c.R30 trillion as at 31 December 2022). As expected, derivatives exposures made up the largest contribution to the total exposure, i.e., c.93% of all exposures (=R44 trillion). Interest rate swaps were highlighted as the predominant derivatives product.

6.2 Mr Zakhele Gininda and Mr Parin Gokaldas had noted that the growth in total exposures (when compared to the prior survey period) was indeed significant. Mr Gokaldas had noted that the current interest rate climate does typically bring forth heightened activity. Nevertheless, this sizeable increase does warrant further investigation. Mr Gokaldas further highlighted the important role of clearing houses such as LCH in managing the large volume of interbank derivative activity. The exposure differences between Jibar tenors was also discussed, where it was reiterated that tenors with lower exposures (e.g. 6-month Jibar) would be eligible to undergo cessation prior to the more popular tenors (such as 3-month Jibar).

6.3 It was noted that c.6% of Jibar related exposures would mature in 10 to 30 years. Whilst this was a relatively small portion of the total contracts in issue, these longer-term contracts were important when considering tough legacy issues. Jibar-related exposures classified as bank assets and liabilities had nominal values of R1.5 trillion and R1.3 trillion, respectively. The maturity profile of assets and liabilities differed to derivatives, in the sense that assets and liabilities tended to have a longer maturity term (i.e. typically exceeding 1 year going up to 10 years) when compared to the derivatives maturity profile (predominantly maturing from overnight to one year).

7. Market Infrastructure Readiness

7.1 Mr Ruan Roux provided feedback on the inaugural market infrastructure readiness survey. This was a qualitative survey that was simultaneously shared with market participants together with the abovementioned quantitative survey. Mr Roux highlighted that market participants do have an appreciation of the complexity required to administer the new rate in their systems. A key observation from the survey, was that whilst most firms were aware of the reference rate reform project, they felt that more regular communication and clear and firm timelines for cessation were critical.

7.2 Mr Roux noted that there needed to be an increase in co-ordination between the Data Collection & Infrastructure (DCI) Workstream and the Derivatives Workstream to understand the needs of the derivative market with regards to market infrastructures and any dependencies therein. It was noted that the 6.5 years of historical proxy ZARONIA rates would be made available, and market participants would then be able to conduct their own bespoke analysis on the data.

7.3 It was noted that the DCI workstream was conducting accelerated work towards a project plan for market infrastructures to ready themselves for transition. It was further reiterated that formal communication would encourage infrastructure providers to meet readiness objectives.

7.4 On the topic of market infrastructures and financial institutions, Mr Andries du Toit had suggested to Mr Roux that it may be worthwhile to communicate with an institution such as the Swiss FSB related to their work on G20 equivalent ratings on

South Africa. Mr Ruan Roux would look into this query offline and determine if there would be any relevant implications for to the RRR project.

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

8.1 Mr Parin Gokaldas highlighted the progress made on the market outreach initiative. It was noted that a wide range of critical stakeholders in the derivatives market had already been engaged. Importantly, stakeholders had been apprised of the most critical recent developments that were required to meet the intended readiness timelines. It was noted that feedback has been constructive, with South African participants leveraging off global best practice where necessary. LCH was highlighted as a key dependency for effective ZARONIA transition. Following DWS engagements with LCH, it was noted that LCH require certain internal governance requirements to take place before they are able to clear ZARONIA based derivatives, and they are awaiting formal correspondence from the SARB. This governance includes the approval by their regulator, the Bank of England (BoE), before LCH can commit to adopting ZARONIA and include the preparatory work in their book of work. It was noted that a critical milestone for the transition path, was to target operational readiness for derivatives clearing by the end of the second quarter of 2024.

8.2 Other stakeholders that were engaged by the Derivatives Workstream included the inter-dealer brokers (IDBs), who fulfil an important role as intermediaries between market making financial institutions. The buy-in of this segment of the market was critical to ensure a smooth transition from Jibar to ZARONIA. Again, formal communication from the SARB was highlighted as a useful tool to highlight the urgency of the transition process, particularly since the IDBs typically operate across various countries (i.e. change management at their respective institutions takes place centrally, and thus would need to be prioritised as a regulatory matter in order to give it due attention).

8.3 Another stakeholder of interest was MarkitWire, a critical market infrastructure provider that provides the ability to confirm derivative transactions in a seamless manner. The DWS engagements with MarketWire had been positive, where they had indicated that they were in the process of incorporating the updated ISDA definitions, with plans to go live by 27 January 2024. The DWS had also had positive engagements with price providers such as Bloomberg and Refinitiv. The stakeholder group that had proven the most challenging to include in transition efforts had been the international banking community. However, the DWS had made strides recently and members have been receptive to communications. The intention was to increase their participation to the point where international banks meaningfully contribute to the various workstream activities.

8.4 It was further reiterated that there was a need for formal and clear communications from the SARB (as the regulator) to secure commitment from the abovementioned stakeholders. Specifically, communication related to transition timelines and project plans would assist the abovementioned market infrastructure providers to understand the urgency of the various initiatives.

8.5 The Cash Market Workstream had engaged with the Derivatives Workstream, on comments received regarding differences in date conventions between the derivatives and cash market whitepapers (this was discussed further under agenda item 9). In summary, there were notable differences between the market conventions proposed by the Derivatives Workstream and those recommended by the Cash Market Workstream. Nonetheless, the workstreams were comfortable with the differences in conventions as they were still in line with global best practice. It was noted that once the cash market papers were finalised, market participants could consider bespoke derivative arrangements, and provide further confirmation whether the differences in conventions would impact their ability to hedge their exposures. The DWS noted their intention to engage ISDA (in partnership with the Transition and Legal Workstreams) on granular timelines regarding publication of protocols.

8.6 Mr Gokaldas had requested steer from the MPG on the drafting of a letter to market infrastructure providers to commit to timelines and to approve any letters via round robin. This request was supported by the MPG with no objections. An action item raised was the drafting of a memo from the DWS to the Cash Market Workstream to assist external parties to understand the misalignment between the conventions laid out by the respective workstreams and any real-world implications.

9. **Consultation on market conventions for ZARONIA-linked cash instruments**

9.1 Mr Andries du Toit provided an update on the Cash Market Workstream whitepapers. These papers were released for public consultation in September 2023. The papers were now at a stage where the MPG's approval was needed in order to finalise publication.

9.2 The comments received related to matters such as lookback periods, accrual calculations, standardisation of conventions, remedying of ZARONIA publication errors and hedge accounting. The Cash Market Workstream had provided responses to the comments received. It was noted that the responses to comments are to be documented and be made available for publication. Following the discussion, the MPG was comfortable to proceed with the publication of the respective whitepapers as final drafts.

9.3 Mr du Toit had also requested approval and steer from the MPG on plans to move ahead with the publication of the framework for a forward-looking term rate. It was noted that the forward-looking term rate was an active discussion point at the Transition Workstream. It was agreed that the term rate was sufficiently important to warrant further work, however the publication of a forward-looking term rate was not deemed a critical dependency with regards to meeting transition timelines. Work on the term reference rate and associated curve construction research would continue. Once the MPG had been satisfied, the paper would be released for publication.

10. **Jibar transition path**

10.1 <u>Update on the legal and regulatory issues</u>

10.1.1 Mr Nkosi Makoko had provided feedback on the legal and regulatory issues related to Jibar cessation. He noted three key issues that needed urgent attention, namely: limitations on money market funds arising due to CISCA and Board Notice 90 (BN90) stipulations; the transition of tough legacy contracts; and implications for existing regulatory instruments.

10.1.2 Mr Makoko noted that engagements with ASISA related to BN90 had taken place.

BN90 placed limitations on money market funds' ability to invest in instruments where the interest rate was not known in advance. The recommendation was for the FSCA, as the responsible authority, to issue a guidance note specifically on this aspect of the legislation. A broader review of BN90 was underway, going wider than just the transition project. Whilst the broader review takes place, the FSCA should be in a position to issue guidance on how any perceived obstacles related to transition should be overcome. Ms Gill Raine highlighted that the BN90 consultation would proceed in Q2 2024, thus an interim solution would be welcomed.

10.1.3 The issue of the treatment of legacy contracts was deliberated through the joint work conducted between the Legal Workstream and the Governance and Regulatory Issues Workstream. The options laid out entailed incorporating provisions in either the benchmark regulations or conduct standards related to the provision of a benchmark. It was noted that the work was not expected to be onerous as both regulatory instruments were in draft mode at the moment. It was noted that the draft conduct standard were not applicable to central banks but were relevant to other benchmark providers and institutions.

10.1.4 Mr Makoko had shared observations from other jurisdictions (such as the US and the UK) related to safe harbour provisions. Whilst not an exhaustive list, key provisions included those for synthetic rates, disputes arising out of the replacement of Jibar, nullifying of fallback clauses related to Jibar, amongst others. A more comprehensive list would be detailed in a report to be provided by the Governance and Regulatory Issues Workstream.

10.1.5 Based on their joint work to date, the Legal Workstream and Governance Workstream had recommended that the best option would be to make use of benchmark regulations as this was in line with global best practice. Importantly the workstreams would need to consider provisions related to retail credit providers and regulations related to synthetic Jibar.

10.1.6 The Governance Workstream would consult with National Treasury on the inclusion of safe harbour legislation in the benchmark regulations. It would also be necessary to publish the recommendation and/or proposed clauses for public comments. Importantly, the workstream would need to engage with key industry bodies and regulatory institutions, including BASA, FSCA, and the Prudential Authority. There were no objections raised related to this course of action. The Governance Workstream will need to bring a recommendation to the MPG before they are to engage National Treasury on the inclusion of the aforementioned provisions.

10.1.7 Mr Gininda raised a query as to what was required to ensure timely finalisation. He requested that Mr Shongwe and Mr Makoko circulate the joint memo to MPG members as soon as possible – with the memo potentially being converted into a consultation paper. Mr Mluleki Shongwe stressed the urgency of kick-starting the aforementioned consultation process with National Treasury, and suggested that they should ideally begin at the end of January 2024. Mr Paul Burgoyne cautioned that any prudential work to be completed with BASA (and potentially the insurance sector) might create a risk to transition timelines.

10.1.8 Mr Gininda noted that the ZARONIA-first initiative would need input from both the Cash Market and Governance workstreams (related to regulatory instruments) to ensure that legacy issues are adequately addressed, this was important as cessation of certain Jibar tenors would likely take place before others.

10.2 <u>Implications for the MPG's transition roadmap</u>

10.2.1 Mr Paul Burgoyne provided feedback on the latest MPG transition timelines and milestones. Mr Burgoyne noted that initially concerns were raised by ISDA and the Legal Workstream regarding formal cessation of Jibar, and whether this should take place only after the ISDA fallback protocols are implemented. It was noted that a distinction should be made between an initial signalling of the protocol versus a formal announcement of the protocols being in place. It was proposed that the protocol should be agreed by November 2024 and then only implemented by December 2025, thus allowing the market time to adopt the protocol prior to Jibar cessation in 2026. The Jibar cessation event would crystallise a number of events, one of which being the credit adjustment spreads. This needs to be taken into consideration when embarking on actions such as earlier cessation for certain Jibar tenors. It was reiterated that cessation of certain tenors only take place in March 2026 to allow for sufficient time to ensure that ISDA Fallbacks Protocols are in place. March 2026 was also the proposed date for "no new Jibar". The adoption of a forward-looking term rate has been removed from the transition timeline as a pre-requisite, thus it was not a specific milestone/dependency. The work on term rates would still proceed with no specific dependency on term rates being available prior to cessation. A new milestone has been added related to Cash Market fallback methodologies, which would be released approximately six months after the ISDA fallbacks.

10.2.2 Mr Burgoyne noted that the timeline was tight, and may be subject to change based on certain dependencies. Mr Gininda had queried whether it would be possible to draft a document detailing what the transition approach would entail, together with critical dependencies, as this would be required in order to communicate the intended Jibar cessation dates to the market. This document was to be finalised by end January 2024.

10.2.3 MPG members were broadly in agreement and supportive of the end of 2026 as the date for Jibar cessation. It was noted by members that a firm date provides a definitive target for the market to work towards. Communication to the market would thus need to make mention of a firm transition path as opposed to a tentative transition path.

10.2.4 It was noted that further reporting of derivatives would be useful in monitoring transition progress. Mr Nkosi Makoko noted that the FSCA had been engaging with STRATE on their plans to become a trade repository agent, with the SARB also aiming to increase reporting requirements on derivatives and other interest rate swaps in future.

11. MPG work schedule

11.1 Mr Mluleki Shongwe provided feedback on the 2024 Legal Workstream (LWS) work plan. The LWS would prioritise work on amendments to the draft benchmark regulations, and would engage with ISDA and Bloomberg on further work to publish fallback protocols. The workstream would work with the Loan Market Association (LMA), the International Capital Markets Association (ICMA) and ISDA to improve on contract readiness and fallback language for the bonds, loans and money market respectively. The LWS would also begin preparations for a follow up legal industry webinar.

11.2 Mr Zafar Parker provided feedback on the Communication Workstream (CWS) work plan, noting that the work plan was dependent on the output from other workstreams. A newsletter on ZARONIA and the Jibar transition would be released in early 2024, and the MPG Conference was earmarked for Q3 2024, along with other stakeholder engagements.

12. **General**

12.1 Mr Zakhele Gininda noted that communication efforts and outreach would need to intensify in 2024, highlighting that articles and opinion pieces would go a long way to increasing exposure and awareness of the Jibar cessation program.

13. **Date of the next meeting – 8 February 2024**

14. **Closure**

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

Signed by:Rashad Cassim
Signed at:2024-02-26 07:23:24 +02:00
Reason:Witnessing Rashad Cassim

Rashad Cassim 26/02/24

DG R Cassim **Date**

Chairperson:

Market Practitioners Group on the Interest Rate Benchmark Reforms