

 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



SOUTH AFRICAN RESERVE BANK

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

Financial Markets Department

Minutes of the meeting of the Market Practitioners Group on Interest Rate Benchmark Reforms held via MS Teams on Friday, 4 August 2023 at 09:00

Minutes No. 03/2023

Present:

R Cassim	Chairperson – Deputy Governor of the SARB
J Mol	Association of Corporate Treasurers of Southern Africa (ACTSA)
A Ludin	Financial Sector Conduct Authority (FSCA)
Z Parker	SARB – Chair: Communications Workstream
R Roux	Chair – Data Collection and Infrastructure Workstream
N Makoko	Acting Chair – Governance Workstream Member
A Du Toit	Chair – Risk-free and Term Reference Rates Workstream
P Burgoyne	Chair – Transition Workstream
G Haylett	Banking Association of South Africa
C van der Walt	Chair – Legal Workstream
M Phungo	SARB Financial Markets Department

In attendance:

Z Gininda	SARB Financial Markets Department
N Hoosenmia	SARB Financial Markets Department

By invitation:

M Vilakazi	SARB Legal Services Department
M Shongwe	SARB Legal Services Department
O Eybers	Governance Workstream Member
K Makoko	SARB Prudential Authority
A Bhowan	Derivatives Workstream member

Apologies:

E Hamman	Chair – Governance and Regulatory Issues Workstream
G Raine	Association for Savings and Investment South Africa (ASISA)
B Maronoti	SARB Financial Markets Department
P Mananga	SARB Prudential Authority
P Gokaldas	Chair – Derivatives Workstream

1. **Welcome**

1.1 The Chairperson welcomed members to the third meeting of the Market Practitioners Group on Interest Rate Benchmark Reforms (hereafter referred to as the 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 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. 2/2023 of the meeting held on 9 June 2023**

4.1 The minutes of the meeting held on 9 June 2023 were accepted as a true reflection of the deliberations and approved for signature by the Chairperson.

4.2 The signed minutes would be published on the MPG page on the SARB website.

5. **Matters arising**

5.1 **Board Notice 90 and SAFEX Overnight Rate**

5.1.1 Ms Eybers reported that the Financial Sector Conduct Authority (FSCA) had circulated a memorandum regarding the postponed review of Board Notice 90 of 2014. The Prudential Authority (PA) and FSCA had formed a joint working group that would perform the review.

6. **Compounded ZARONIA period averages and index**

- 6.1 Mr Gininda presented the calculation methodology and publication policy for compounded ZARONIA period averages and index. The primary objective for availing compounded ZARONIA statistics was to encourage cash market participants to adopt ZARONIA and transition away from Jibar. Furthermore, a compounded ZARONIA webpage would provide market participants with a common reference point for backward-looking term rates and eliminate potential disputes due to different calculation methodologies being employed. The SARB had planned to calculate and publish rates for commonly used maturities on every South African business day.
- 6.2 The SARB had already developed the calculation module for compounded ZARONIA. The full history of compounded ZARONIA rates, including proxy rates that would be based on the historical 6.5-year dataset, would be made available in due course. It was likely that the compounded ZARONIA rates would be essential in determining the appropriate methodology for credit adjustment spreads.
- 6.3 There were some delays experienced with the collection of the historical data due to data quality issues detected on certain submissions. Impacted banks were requested to resolve the issues and resubmit their data files. The SARB would calculate ZARONIA proxy rates once all outstanding data had been successfully received. The MPG needed the proxy rates to assess whether the SARB's transition to a floor system in the implementation of monetary policy had resulted in a structural change in core funding markets. Furthermore, preliminary engagements with certain clearing houses highlighted the need for the full history of pre-publication ZARONIA rates to allow them to back-test their margin methodologies.
- 6.4 It was also highlighted the SARB would revert to publishing ZARONIA at 10H00 daily, in line with the "Statement of methodology and policies governing SARB-administered benchmarks". The SARB had been publishing the rate at 13H00 on most days.

7. **Market infrastructure readiness**

7.1 Mr Ruan Roux reported that the workstream had been engaging industry bodies' representatives on the requirements to engage their members on infrastructure readiness. Furthermore, the workstream had prepared an infrastructure readiness questionnaire that would be included in the next iteration of the Jibar-related exposures survey.

7.2 Given the strategy to enable the derivatives market to adopt ZARONIA-first, the workstream would intensify engagements with market participants to ready their systems and processes to facilitate ZARONIA-based derivatives transactions. The workstream had held engagements with two international clearing houses, namely LCH Ltd and CME Group, who indicated the need to take the requirements back into their forums to assess the effort and lead times required to support ZARONIA-based derivatives. Consequently, it could take up to a year for market infrastructure providers to be ready, which meant that the transition roadmap would likely be revised.

8. **ISDA requirements for ZARONIA**

8.1 Ms Vilakazi presented on the inclusion of ZARONIA in the 2021 International Swaps and Derivatives Association (ISDA) Interest Rate Definitions and fallback protocol requirements. Essentially, the ISDA definitions provide standardised derivatives market conventions in order to simplify contracting between market participants and ensure a common reference for widely used terms, including the underlying benchmark rate, fixing time, applicable fallback rate, permanent cessation triggers, and fallbacks.

8.2 Furthermore, the requirements for updating fallback protocols entailed five procedures, with the first one being the publication of ZARONIA in the local currency, which would facilitate new transactions once ZARONIA is endorsed. The second requirement included confirmation from the central bank which would determine that the fallbacks and related standard adjustments were suitable. The third and fourth covered the existence of at least five years of ZARONIA proxy data that would be used by Bloomberg for calculating the indicative spread adjustment and

engagements with Bloomberg to produce indicative fallback rates. The final item covered engagements with ISDA to include new fallbacks in derivatives documentation. It was highlighted that the first and third requirements were concluded and that the remaining requirements would require consultation with ISDA and Bloomberg, to determine whether the calculation methodology used by Bloomberg can be applied to ZARONIA.

- 8.3 ISDA had also advised the workstream that it would require at least an 18-month lead time to allow for the drafting of the protocol and fallbacks. This would allow sufficient time for the market to understand the protocol and sign up for its application on legacy transactions.

9. **Market conventions for the cash market**

- 9.1 Mr Du Toit presented on the Cash Market Workstream's primary focus which included finalising drafts of the three white papers recommending a set of market conventions for ZARONIA-based cash market instruments. Once finalised, the white papers would be published as consultation papers to solicit comments from market participants. The documents included market conventions for the loan, bond, and money markets respectively.

- 9.2 The white papers entailed five market conventions recommendations, with the first one being the daily overnight rate being compounded over the interest period. The second convention recommended a 5-business day lookback with observation shift for the bond market, a 1-business day lookback with observation shift for the money market and a 5-business day lookback with no observation shift for the loan market respectively. Furthermore, for the loan market, the workstream has also recommended simple average ZARONIA to be used where it is not possible to use the recommended conventions. The third and fourth conventions included the compounded rate expressed as simple actual/365 and rounded to 6 decimal places with margin added. The final item covered the interest rate being calculated and rounded to 2 decimal places.

10. **Update on the MPG work schedule**
- 10.1 The Communication Workstream (CWS) had published the MPG conference documents and recordings on the MPG webpage.
- 10.2 The Derivative Workstream (DWS) had drafted a practical guide for the white paper on 'Market conventions for ZARONIA-based derivatives' in order to ensure that a less technical audience would be able to follow the recommendations contained therein. The white paper had been finalised following engagements with certain market infrastructure providers and the processing of market participants' feedback on the consultation paper that was published on 20 January 2023.
- 10.3 The DWS had scheduled about five banks to conduct test trades among each other in order to assess derivatives market maker's infrastructure and operational capabilities.
- 10.4 The Legal Workstream had planned to hold a virtual industry forum for the legal fraternity on 12 September 2023. Industry forums for ASISA and ACTSA would be finalised after the publication of the cash market conventions consultation papers.
- 10.5 The Governance and Regulatory Issues Workstream members had been given additional time to provide input for the workstream position paper on SARB-administered benchmarks. It was envisaged that the final paper would be tabled at the next MPG meeting. Furthermore, the workstream had administered a survey to assess regulatory implications for Jibar cessation. The survey was distributed to industry bodies to solicit responses from their constituents.
- 10.6 Mr Burgoyne presented a revised Jibar transition roadmap which included the key milestones and activities. It was recommended that the SARB's communication regarding the Jibar cessation date occur early next year. Also, the revised plan would need to split the ZARONIA-first initiative from the 'No new Jibar' initiative to allow the cash market to build liquidity.

11. **Date of the next meeting – 6 October 2023, 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

Date

Chairperson:

Market Practitioners Group on the Interest Rate Benchmark Reforms