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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, 3 February 2023 at 09:00

### Minutes No. 01/2023

#### **Present:**

R Cassim	Chairperson – Deputy Governor of the SARB
J Mol	Association of Corporate Treasurers of Southern Africa (ACTSA)
E Hamman	Chair - Governance and Regulatory Issues Workstream
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)
A Du Toit	Chair - Risk-free and Term Reference Rates Workstream
G Haylett	Banking Association of South Africa
M Phungo	SARB Financial Markets Department

#### **In attendance:**

Z Gininda	SARB Financial Markets Department
S Springfield	SARB Financial Markets Department
N Hoosenmia	SARB Financial Markets Department
P Mananga	SARB Prudential Authority

#### **By invitation:**

M Sibaya	SARB Legal Services Department
M Shongwe	SARB Legal Services Department
P Zitha	SARB Legal Services Department
A Bhowan	DWS Member

#### **Apologies:**

B Maronoti	SARB Financial Markets Department
K Engel	Chair – Tax and Accounting Workstream
P Gokaldas	Chair – Derivatives Workstream
C van der Walt	Chair – Legal Workstream

## 1. **Welcome**

1.1 The Chairperson welcomed members to the first 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. 5/2022 of the meeting held on 2 December 2022**

4.1 The minutes of the meeting held on 2 December 2022 were accepted as a true reflection of the deliberations and were 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 **Jibar-related exposures survey**

5.2 Mr Hoosenmia reported that the Jibar-related exposures survey would be distributed in February 2023 and completed in March 2023. It was noted the survey would be refined to include granular details on derivatives exposures and capture the exposures to other benchmark rates such as South African Benchmark Overnight Rate (Sabor) and the SAFEX Overnight Rate.

### 5.3 **SAFEX Overnight Rate**

- 5.3.1 Ms Hamman presented the results of the gap analysis performed to determine whether the SAFEX Overnight Rate was compliant with the IOSCO Principles of Financial Benchmarks and the draft Benchmark Regulation and Conduct Standard of the Financial Sector Conduct Authority (FSCA).

The results indicated that the SAFEX Overnight Rate was not compliant with both standards. Furthermore, MPG members opined on some of the commentary that were provided in the analysis indicating that they would provide feedback to Ms Hamman on the matter which demonstrated that SAFEX overnight was not compliant. However, it was also highlighted that the fundamental issue with SAFEX might be the misalignment between the framework and design of the rate as determined by the Johannesburg Stock Exchange's (JSE's) risk committee and how the rate is used in the market, which does not imply that the benchmark is not compliant with IOSCO principles. It was indicated that a technical document on this matter would be provided to Ms Hamman.

- 5.3.2 As a next step, once the Regulatory Framework for Financial Benchmarks has been finalised, the JSE would have to apply to be licensed as a financial benchmark provider and provide evidence that it complies with the requirements. It was indicated that provisions have been made for a transition period of 12 months for the benchmark providers to comply with the requirements set out in the Conduct Standard.

### 5.4 **ZARONIA Code of Conduct**

- 5.4.1 Mr Gininda requested MPG members to adopt the governance position paper, which would be posted on the MPG webpage. The SARB Working Group would be given the opportunity to engage on the position paper and finalise the document for publication. Subsequently, the SARB would also review the recommendations in the position paper and use them as inputs when formulating the framework for the ZARONIA Code of Conduct.

## 5.5 **Board Notice 90**

5.5.1 Ms Ludin indicated that the review of Board Notice 90 was at its initial stage and the FSCA was currently engaging its regulatory department to perform an assessment of the required change. In addition, the FSCA had requested the Association for Savings and Investment South Africa (ASISA) to also assess Board Notice 90 and provide input from an industry perspective.

## 6. **Legal Workstream**

6.1 Ms Sibaya provided feedback on the legal workstream position paper, which outlines general guidance on incorporating fallback language in legal contracts. The paper considers what constitutes an agreement to agree under the South African Law and whether a clause in terms of which parties agree to switch the underlying reference rate from JIBAR to ZARONIA would be enforceable.

6.2 It was highlighted that the differences in the nature and calculation of JIBAR and ZARONIA might have implications for the price, payment intervals and returns that were initially agreed upon. Furthermore, they might introduce uncertainty as to how certain aspects of the agreement could be interpreted or require amendments to the agreement to enable it to operate smoothly going forward. It was therefore fundamental that contracts provided a roadmap for dealing with the contingency of a necessary change in reference rates. Market participants would be encouraged to start including general contractual wording in terms of which parties agree to replace Jibar with ZARONIA or such other appropriate interest rate in their contracts to preempt potential litigation or disputes before they arose.

6.3 The Legal Workstream had engaged lawyers from the banking sector and law firms that formed part of the workstream to solicit their input for the position paper. Workstream members were requested to consult further within their organisations.

## 7. MPG Conference

- 7.1 Mr Parker presented the agenda for the annual MPG conference, which was rescheduled to take place on 19 April 2023 in order to accommodate some of the work that was underway, including: the public consultation on the Derivative Workstream's whitepaper; an update of the transition plan; initial discussions on the market conventions for the loan and bond markets; the calculation of the compounded ZARONIA averages and indices; and the finalization of the Legal Workstream position paper.
- 7.2 The conference agenda entailed a keynote address by the Chairperson, followed by panel discussions with selected MPG members. As previously communicated, the content that would be discussed at the conference would include, among others, the constitution of ZARONIA and its performance, the MPG's Jibar transition plan, market conventions for ZARONIA-based derivatives, and the general guidance on fallback language.
- 7.3 Furthermore, affected workstream chairpersons were required to advise on the format that would be used for their respective breakaway session. Some MPG members had raised concerns on the breakaway session, particularly members that would like to engage on the different aspects of the different breakaway session and requested that considerations be given to the possibility of changing the format of the agenda. However, it was argued that changing the format of the agenda to allow members to attend all breakaway sessions would prolong the conference and hinder the in-depth discussion on certain elements of the foundation phase activities.
- 7.4 Panel discussants were requested to provide pictures and short bios of themselves, which would be included in the conference pack. They were also advised that the whole conference would be recorded and posted on YouTube in due course as the format of the conference would only allow for in-person attendance.
- 7.5 The Communications Workstream had planned to publish its first newsletter, which would cover the conference items. The newsletter would be distributed electronically

to maximise its reach and allow market participants who could not attend the conference to easily access its recording and related material.

## 8. **MPG Workplan 2023**

- 8.1 Mr Bhowan noted that the Derivative Workstream (DWS) would consolidate the public comments regarding the white paper on market conventions. Furthermore, the workstream was considering how it could address the request for educational material aimed at making the workstreams activities, including the white paper, more accessible.
- 8.2 The Cash Market Workstream's primary focus for the upcoming four months included designing market conventions for the loan and bond markets. The workstream had planned to engage industries outside the Banking Association of South Africa (BASA) to assist with bond market conventions. It was envisaged a draft position paper would be presented to the MPG for consideration before the end of the ZARONIA observation period.
- 8.3 The Data Collection and Infrastructure (DCI) Workstream's activities had largely been focused on three main objectives: Firstly, the data collection mechanism to enable the calculation and publication of ZARONIA. Secondly, finalising the collection of 6.5 years of historical data for the calculation of ZARONIA compounded averages and indices. Lastly, market infrastructure, which would require external assistance particularly for identifying and engaging key technology vendors.
- 8.4 The Legal workstream plan action item included: the finalization of the legal position paper: the production of an Information Pack that would summarize protocols; and fall-back language, which would be finalised before the MPG conference. The workstream would engage and collaborate with the governance workstream on the regulatory issues. Finally, the workstream aimed to draft a position paper on tough legacy contracts.
- 8.5 The Transition Planning and Coordination Workstream (TPCW) aimed to increase its bi-weekly engagements with other workstreams, whose output would be essential for the update of the transition plan. The TPCW had considered the publication

process for the qualitative survey on the MPG website or its distribution for the MPG conference. It was agreed that the TPCW and the SARB would finalise the publication of the Jibar qualitative survey.

9. **General**

9.1 Mr Gininda informed members that MPG members needed to formally endorse ZARONIA in April and requested members to provide feedback and raise any concerns regarding the published ZARONIA rates prior to formally endorsing ZARONIA. Furthermore, members were requested to consider creating educational materials that would assist market participants to understand the MPG's initiatives, such materials would be made available on the MPG webpage. Also, requested that workstreams should consider the key issues highlighted by Mr Burgoyne at the MPG meeting on 2 December 2022 and include them in their workplans. Mr Gininda confirmed that communication would be sent out to the different workstreams.

10. **Date of the next meeting – 21 April 2023, 09:00 AM**

11. **Closure**

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

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**DG R Cassim**

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**Date**

**Chairperson:**

**Market Practitioners Group on the Interest Rate Benchmark Reforms**