Rashad Cassim: The upcoming Jibar transition

Opening remarks by Mr Rashad Cassim, Deputy Governor of the South African Reserve Bank, at the Market Practitioners Group Conference, Sandton, Johannesburg, 21 August 2024.

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Good morning, all.

We appreciate that, of all the priorities competing for your time, you have chosen to attend this third Market Practitioners Group (MPG) Conference. Our subject is an important one: the upcoming transition of the Johannesburg Interbank Average Rate, commonly known as Jibar, to ZARONIA which is the South African Rand Overnight Index Average rate.

For several years, the MPG and the South African Reserve Bank (SARB) have been building the foundations for reference rate reform.

The designated successor to Jibar, ZARONIA is an overnight, wholesale deposit rate. It is near risk-free, and unlike Jibar, it is based on large volumes of actual transactions in the South African market, as opposed to a rate based on small volumes of quotes.

The veracity of ZARONIA has been tested extensively through a year-long observation period, which concluded in November 2023. It is now being published daily on the South Arican Reserve Bank (SARB) website for use in financial contracts.

Many of you may be aware that the MPG has published several white papers recommending market conventions for ZARONIA-based cash and derivatives products. Based on these developments, market infrastructure providers have implemented solutions to support market activity.

Before I open to our panels of experts, I want to make three general points. Then, I will move on to highlight some operational and methodological challenges associated with the transition process.

First, the SARB remains committed to discontinuing Jibar.

Second, it is important for market participants to prioritise an active transition away from Jibar based contracts and not just adopt a wait-and-see approach. The best way to minimise transition risks is to minimise the stock of legacy contracts based on Jibar.

Third, the most progressive way forward for market participants will be to take ownership of the transition, to establish transition programmes within your organisations and, to work out your own paths forward.

Jibar cessation

The latest results from the Jibar-related exposures survey indicate that the number of financial contracts referencing Jibar remains huge, with the total gross exposure estimated at over R57 trillion. Much of this exposure is attributable to derivatives contracts that reference the three-month Jibar, accounting for about 91%, while at the same time, the volume of three-month negotiable certificates of deposit (NCDs) that underpins the three-month Jibar remains very small, at just R10 billion. We clearly need a better benchmark, and that is why we are committed to the Jibar cessation.

That said, the SARB's commitment to discontinuing Jibar should not be taken to mean that Jibar is non-representative. It is not the SARB's intention to trigger any precessation clauses at this stage, but rather to give the market the confidence it needs to engage with the transition effort in earnest.

The MPG's recent 'Update on the Jibar transition plan' indicates that Jibar will cease towards the end of 2026.[1] The SARB intends to announce the precise Jibar cessation date in December 2025.

This leaves the market with just over two years to complete the Jibar transition. It is an ambitious timeline, but achievable.

Managing legacy contracts

Jibar and ZARONIA are structurally different. There are term and risk premia in Jibar that do not apply to an overnight cash rate like ZARONIA. Therefore, we will need quantitative techniques to achieve economic equivalence when switching from Jibar to ZARONIA. This will largely be achieved by adding an adjustment spread to ZARONIA.

You may ask: How can we determine an appropriate adjustment spread? It is not a straightforward question to answer. We could employ quantitative models to identify the various premiums in Jibar, and then base the adjustment factor on these spreads. However, model results can be sensitive to assumptions, and the models themselves may not be widely understood, which could make it difficult to achieve consensus on what the appropriate adjustment spread should be.

Alternatively, we could rely solely on observed data to compute the adjustment spread. This would require choosing an approach for instance, the historical mean or median, the spot spread, or a forward-looking approach. This would then inform the choice of the ZARONIA measure that will be used – that is, whether the adjustment spread incorporates compounded ZARONIA period averages, spot ZARONIA rates, or forward-looking ZARONIA rates that incorporate market expectations. Clearly, the choice of the Jibar measure would need to align with the choice of the ZARONIA measure.

Fortunately, the International Swaps and Derivatives Association (ISDA) has consulted widely on this issue, [2] and concluded that market participants would prefer the historical median approach, with an adjustment spread based on five years of data.[3] This method would be robust against data outliers resulting from unusual market conditions, as well as potential manipulation. [4] Consequently, this method was adopted in cash and derivatives markets in the United States, United Kingdom and many jurisdictions that were impacted by the London Interbank Offered Rate (LIBOR) transition.

Nonetheless, in South Africa, market participants are not only concerned about dealing with data outliers; they are also concerned about structural shifts in the behaviour of the Jibar, especially since the SARB's migration to a surplus system for implementing monetary policy in June 2022. It appears that this reform has squeezed liquidity premiums, in that the spread between ZARONIA and Jibar has narrowed somewhat.

The MPG is currently finalising its work on the adjustment spread methodology to ensure that the chosen methodology considers all the idiosyncratic factors that would concern market participants.

It is also important for market participants not to over-rely on fallbacks to facilitate legacy Jibar referencing contracts. The best way to minimise risks would be to actively migrate to ZARONIA referencing contracts as soon as practicable.[5]

There will nonetheless be instances where, despite best efforts, it may not be possible to transition or adjust certain contracts before Jibar ceases. These so-called tough legacy contracts will require regulatory measures to facilitate their transition. As such, it may be necessary for the MPG to consider a synthetic Jibar, similar in structure to the current forward-looking Jibar, to minimise the impact on systems and processes.

Furthermore, the MPG, the SARB and the Financial Sector Conduct Authority will consult with National Treasury on the appropriate regulatory instruments for ensuring contract continuity and safe harbour provisions for the protection of contract parties, supervisors and the benchmark administrator.

Building a new foundation

Shortly after the MPG Conference in April 2023, the remaining US dollar LIBOR panels were discontinued. This concluded a massive decade-long global project to replace LIBOR.[6] Reflecting on this effort, the co-chairs of the Financial Stability Board's Official Sector Steering Group, Nikhil Rathi and John C Williams, concluded that it had been like building a new foundation under an existing home – an undertaking of extreme difficulty, one many doubted would succeed, and which they did not wish to repeat.[7]

It is remarkable that we have had a largely smooth LIBOR transition, and local institutions should be commended for managing their LIBOR exposures effectively.

However, in South Africa we are not yet at the stage where we can relax, enjoy our new foundation and promise ourselves that we never want to renovate again. We are only now embarking on a critical stage of the 'Jibar transition roadmap', [8] which requires market participants to start trading ZARONIA-based securities in earnest.

A poorly coordinated transition, or delayed action by market participants, could result in market disruption and undesirable cliff effects. Consequently, market participants should consider a smooth Jibar transition as a strategic priority, both for their own organisations and the larger financial system.

Last year, I asked market participants to consider elevating the Jibar transition discourse in their organisations and to establish transition programmes, with visibility at the executive board level. This work is ever more urgent today.

Concluding remarks

To conclude, global reference rate reforms were triggered by serious weaknesses in existing benchmarks. These included design failings, glaring cases of market manipulation, and structural shifts in the markets underpinning benchmarks. The responsible authorities had no choice but to reform. But reference rate transitions cannot succeed if market participants do not join in the journey.

I hope you will look at this transition not as a chore or a burden to be taken on with great reluctance, but as an opportunity – an opportunity to build better markets as we navigate together to a new benchmark.

There are uncertainties contained in the Jibar transition plan. None of the listed milestones and timelines are cast in stone. At best, they reflect the MPG's best estimates given the knowledge and information at hand. It is possible that some milestones may need to be shifted now and again. Nonetheless, the MPG will endeavour to manage the uncertainties and continue to engage all stakeholders and provide clarity where necessary.

I hope you enjoy the rest of the conference.

Thank you.

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[1] Market Practitioners Group, Transition Planning and Coordination Workstream, 'Update on the Jibar transition plan', 2024. https://www.resbank.co.za/content/dam/sarb/publications/financialmarkets/committees/mpg/mpg-ralated-documents/2024/update-on-the-Jibar-transition-plan.pdf (accessed 10 August 2024).

[2] ISDA, 'Consultation on certain aspects of fallbacks for derivatives referencing GBP LIBOR, CHF LIBOR, JPY LIBOR, TIBOR, Euroyen TIBOR and BBSW', 2018. https://assets.isda.org/media/f253b540-193/42c13663-pdf/ (accessed 10 August 2024).

[3] The Brattle Group, 'Summary of responses to the ISDA consultation on final parameters for the spread and term adjustments', 15 November 2019. https://assets.isda.org/media/3e16cdd2/d1b3283fpdf/ (accessed 10 August 2024).

[4] Financial Conduct Authority (UK), 'Article 23D benchmarks regulation: Draft notice of requirements', 29 September 2021. https://www.fca.org.uk/publication/libor-notices/article-23d-benchmarksregulation-draft-requirements-notice.pdf (accessed 10 August 2024).

[5] Financial Stability Board, 'FSB statement to support preparations for LIBOR cessation', 19 November 2021. https://www.fsb.org/2021/11/fsb-statement-to-support-preparations-for-liborcessation/ (accessed 10 August 2024).

[6] Financial Stability Board, 'Progress report on LIBOR and other benchmarks transition issues: Reaching the finishing line of LIBOR transition and securing robust reference rates for the future', 16 December 2022. https://www.fsb.org/wp-content/uploads/P161222.pdf (accessed 10 August 2024).

[7] N Rathi and J C Williams, 'Innovating for the future, heeding lessons from the past', Federal Reserve Bank of New York, The Teller Window, 17 August 2023. https://tellerwindow.newyorkfed.org/2023/08/17/innovating-for-the-future-heeding-lessons-from-thepast/ (accessed 10 august 2024).

[8] Market Practitioners Group, Transition Planning and Coordination Workstream, 'Update on the Jibar transition plan', 2024. https://www.resbank.co.za/content/dam/sarb/publications/financialmarkets/committees/mpg/mpg-ralated-documents/2024/update-on-the-Jibar-transition-plan.pdf (accessed 10 August 2024).