NATIONAL ASSEMBLY

QUESTION FOR WRITTEN REPLY

QUESTION NUMBER: 1927 [NW2316E]

DATE OF PUBLICATION: 3 AUGUST 2012

Mr T D Harris (DA) to ask the Minister of Finance:

Whether, with reference to the British banking scandal (details furnished), the SA Reserve Bank (SARB) has placed any measures and safeguards in place to ensure that local arrangements for the setting of the Johannesburg Interbank Agreed Rate (JIBAR) (a) have not been and (b) will not be, subject to similar manipulations; if not, what steps does he intend taking to ensure that the (i) banking regulation and (ii) supervision functions of the SARB are able to prevent similar manipulations; if so, what are the relevant details?

NW2316E

REPLY:

(a) and (b) Yes, the SA Reserve Bank (SARB) has put in place measures and safeguards to reduce the possibility for manipulation in the local arrangements for the setting of the Johannesburg Interbank Agreed Rate (JIBAR), and together with the Financial Services Board, JSE and National Treasury, is following closely the revelations in the UK on the manipulation around the setting of LIBOR. The SARB issued a press release to this effect, dated 17 July 2012 (available on its website), to indicate the review process that it had initiated in 2011, to assess the procedures for determining domestic money market reference rates, including JIBAR.

The JIBAR is clearly an important reference rate for the SA economy, but it is nowhere near as significant globally as a reference rate as LIBOR, which is a benchmark for most international transactions. The JIBAR is the main benchmark for money market interest rates in South Africa and is published daily at 11:00 on the JSE website and on Reuters SAFEY for periods of one, three, six and twelve months. The three-month JIBAR is widely used and accepted as a benchmark in the domestic financial markets.

As noted in the SARB press statement, unlike LIBOR, which represents an estimate by banks in the London market of the rates at which they believe they could borrow funds between each other, JIBAR is based on interest rates at which South African banks buy and sell their own negotiable certificates of deposit (NCDs), and represent actual rates which can be traded in the money market. The JIBAR is compiled on the basis of contributions received from nine commercial banks before 11:00, five of which are local banks and four local operations of foreign banks. The JSE also distributes a spread sheet showing all bids and offers from all contributors through its data subscription system. All contributing banks are licensed and regulated by the SARB. The input required from contributors is bid and offer quotes on tradeable instruments issued by the contributing bank, such as NCDs. The offer quote is where the bank will sell this tradeable instrument to a client wishing to invest in this instrument. The level quoted by the banks into the JIBAR process is public information.

The daily calculation and publication of the JIBAR is currently overseen by the JSE. The JSE is a regulator in its capacity as a self-regulatory organisation (SRO) for certain activities, but in turn is also regulated by the FSB. The SARB has also played a regulatory role. As with LIBOR, it is accepted that the regulatory framework previously was not as tight as it should have been, and that these reference rates will need to be regulated more intensely in the future by the FSB or / and SARB. This more intrusive approach will be incorporated into the twin peak model for regulating the South African financial sector, where one of the regulators will be assigned to be the lead regulator.

The review undertaken by the SARB was not triggered by any event or development in the domestic financial markets or as a result of problems encountered or suspected, but proactively as part of the normal work programme of the Financial Markets Liaison Group (FMLG) which comprises representatives from the SARB, National Treasury, the five major banks, foreign banks, the JSE and Strate. This review will assess past practices, but will focus on the further steps to be taken for the future. It is expected to be finalised shortly. Whilst it is not possible to guarantee that there will be no manipulation in the future, these steps should reduce significantly the possibility of such manipulation. Whereas there has not been any evidence of past manipulation, we invite anyone with evidence to the contrary, to submit their evidence to the SARB.

The review is also expected to culminate in a Code of Conduct for banks contributing to the calculation of JIBAR.

(i) and (ii) Not applicable, given the response to (a) and (b)