

The emergence of ZARONIA

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In keeping with global financial market practice of moving toward risk free rates as an alternative to interbank offer rates, the South African Reserve Bank has commenced the process for transitioning to such rates.

Reference rates are at the core of many financial contracts and are important in the global financial sphere as they are utilized to measure the performance of financial activities. In South Africa, the Johannesburg Interbank Average Rate (JIBAR) has and is being used as a reference rate that underpins a significant number of financial contracts and valuations.

In order to ensure that the local interest rate benchmarks are aligned with international practices, the [South African Reserve Bank](#) (SARB) published the *Draft Statement of methodology and Policies Governing SARB-administered interest benchmarks* in 2020 which announced that JIBAR would cease in the near future and that there would be a transition to an alternative "risk free or near risk free rate". The SARB has not announced an official date on which JIBAR is due to terminate, however, it is expected to cease in 2024.

To facilitate the process required to adhere to international practices in relation to reference rates and to guide the transition from JIBAR to alternative rates, the SARB established the Market Practitioners Group (MPG) which is a group comprising representatives from the SARB, the Financial Sector Conduct Authority, and senior professionals from a variety of institutions from different market interest groups active in the domestic money market. The MPG has designated the South African Rand Overnight Index Average (ZARONIA) as the preferred rate to replace JIBAR.

ZARONIA is the measure of the interest rate at which rand-denominated overnight wholesale funds in South Africa are obtained by banks, where credit, liquidity and other risks are minimal. It is an unsecured overnight rate and it is considered to be a more resilient rate as it is based on actual transactions that are reported daily to the SARB. ZARONIA is currently being published on the SARB website to allow market participants to observe the rate, while the MPG considers its implications and plans for the JIBAR transition. The SARB has advised that market participants are strongly discouraged from using ZARONIA in financial contracts until the SARB and the MPG indicate otherwise.

Globally, there is a shift from interbank offer rates (IBORs) to alternative reference rates. IBORs are considered a source of systemic risk as they are capable of, and susceptible to, manipulation. Although South African regulators have concluded that no manipulation has occurred with JIBAR (as the IBOR used in South Africa), the underlying risk remains that manipulation may occur. This is mainly due to the fact that JIBAR is based on indicative rates from only five contributing banks. Consequently, there is a necessity for a more robust rate that has less chance of being manipulated.

South African financial market participants can be guided by the cessation of LIBOR in the United Kingdom in relation to the steps that can be taken when transitioning to another reference rate. The Loan Markets Association (LMA), being the authority for the syndicated loan market in Europe, the Middle East and Africa, is yet to reach a landing on standardized wording to be utilized in transactions to accommodate the transition from JIBAR to ZARONIA. Most standard agreements do contain clauses that cater for market disruptions such as a change in rates. However, financial market participants need to be cognisant of the fact that transitioning from JIBAR to a new rate may not maintain the economic equivalence sought to be achieved with JIBAR, being the original rate in transactions.

It is prudent for financial market participants to understand how ZARONIA will affect transactions going forward and to keep abreast of the notices from the MPG in respect of the transition from JIBAR.

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Aarthi Ramdhin

Director

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