MARKET INTELLIGENCE

ZARONIA

From Market Formation to Implementation

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Market readiness will increasingly be judged by what can be transacted, administered and independently verified - not simply by what can be quoted.

Liquidity • Clearing • Issuance • Governance • Borrower Execution

LKA | Treasury Advisory • Financial Risk • Financing Strategy

Executive Perspective

South Africa's transition from JIBAR to ZARONIA has entered a different phase.

The question is no longer whether ZARONIA will replace JIBAR. JIBAR will cease immediately following its final publication on 31 December 2026. The "No new JIBAR" milestone has been in effect since 1 May, and ZARONIA is increasingly embedded across the infrastructure of the rand interest-rate market.

The more important questions now concern market depth, execution, operational readiness and the practical consequences for borrowers and investors.

There are increasingly tangible signs of progress. ZARONIA-linked swaps represented approximately 30% of total rand swap volumes registered in July, compared with 20% in June. Offshore adoption has lagged the domestic market, but the planned conversion of outstanding cleared JIBAR contracts by LCH in November establishes a significant additional transition milestone.

At the same time, ZARONIA is moving beyond derivatives. New floating-rate debt instruments are already being issued using compounded daily ZARONIA conventions. These developments point towards a market that is moving from benchmark formation to practical implementation.

But they should not be interpreted as evidence that every part of the ZARONIA market is equally mature. The existence of a benchmark, an observable curve and executable interbank transactions does not necessarily tell an end-user what liquidity is available for a specific hedge, at what size, tenor or bid-offer spread, or under what collateral and credit assumptions.

That distinction becomes increasingly important as corporates, infrastructure borrowers and project-finance vehicles move from planning for transition to actually refinancing, restructuring and executing ZARONIA-linked debt and derivatives.

The market is no longer asking whether ZARONIA exists. It is beginning to ask how effectively it can actually be used.

1 Liquidity: the evidence is becoming clearer

MARKET FORMATION

One of the difficulties in assessing the development of ZARONIA has been separating three related but different questions: does a ZARONIA yield curve exist; is there an executable interbank derivatives market; and, most importantly for borrowers, how much executable liquidity exists for end-users?

During the earlier stages of transition these questions were often implicitly treated as interchangeable. They are not.

The latest available volume data nevertheless represent important progress. ZARONIA-linked swaps accounted for around 30% of total rand swap volumes registered in July, up from 20% in June. A ten-percentage-point increase in one month is meaningful. It demonstrates that migration is no longer simply a regulatory objective or a collection of pilot trades. ZARONIA is capturing a growing share of actual swap activity.

LKA MARKET SOUNDINGS - AUGUST 2026

Discussions with major domestic banks indicate that ZARONIA curve infrastructure has developed materially, with a combination of published indicative curves, internal dealer curves and executable collateralised interbank pricing.

The distinction remains important: an interbank executable rate under standard collateral terms is not necessarily the price available to a corporate or project-finance borrower after credit, capital, liquidity and transaction-specific adjustments.

The appropriate conclusion is therefore becoming more nuanced. Price formation exists. Interbank execution exists. Curve infrastructure exists. The remaining question is the depth, bid-offer and executable liquidity available to end-users across different maturities and transaction sizes.

That question is particularly relevant in project finance, where amortising swaps may extend 10, 15 or 20 years, hedge execution can be concentrated around financial close, and the borrower may have only a small number of approved hedge counterparties.

In that environment, a screen mid-market rate is the starting point for execution analysis rather than the end of it.

2 21 November becomes an important market event

CLEARING CONVERSION

The next major structural event is now clearly identifiable. LCH expects to convert outstanding cleared ZAR JIBAR SwapClear contracts on Saturday 21 November 2026, covering relevant contracts outstanding at the close of its SwapClear service on Friday 20 November. A dress rehearsal is scheduled for 10 October.

The conversion follows the cessation announcement and the fixing of the relevant spread adjustments. For three-month JIBAR, the BISL fallback spread adjustment used for the SwapClear conversion is 0.1619%, or 16.19 basis points.

This is more significant than an administrative change within a clearing house. Offshore adoption has lagged the domestic transition partly because offshore participants are not subject to South Africa's "No new JIBAR" initiative in the same way as regulated domestic institutions. The November event should further concentrate dealer activity onto the replacement benchmark.

Importantly, this does not mean bilateral end-user contracts automatically transition at the same time. For corporates and project-finance borrowers, 21 November is therefore an important market milestone rather than their contractual transition date.

3 ZARONIA is moving into the cash market

ISSUANCE

Perhaps the clearest evidence that the transition is becoming operational is the growing use of ZARONIA outside the derivatives market.

New debt instruments are already being issued against compounded daily ZARONIA, including structures using five-business-day lookbacks. This demonstrates that ZARONIA conventions are no longer theoretical documentation constructs: issuers, arrangers, calculation agents, investors and settlement infrastructure are having to operate them in live instruments.

Cash-market adoption also reinforces derivatives development. The more loans, notes and other instruments reference ZARONIA, the greater the natural demand for ZARONIA-linked hedging. That interaction is particularly relevant to the development of Term ZARONIA, which remains dependent on sufficiently robust underlying derivatives liquidity.

4 Conventions are moving from design to implementation

OPERATIONAL MECHANICS

The transition from a term unsecured benchmark to a transaction-based overnight rate changes more than the numerical level of the reference rate. JIBAR is known at the beginning of the relevant interest period. Compounded ZARONIA is constructed from overnight observations accumulated during that period.

That difference has consequences for interest calculations, payment notices, treasury systems, loan administration, hedge documentation, cash forecasting and operational controls.

For a hedged borrower, apparently small differences can matter. Observation periods, lookbacks, payment delays, day-count conventions, reset mechanics and compounding methodology can all create differences between the cash instrument and the derivative. These may be economically small in some circumstances; in others they can create persistent hedge mismatch, accounting ineffectiveness or avoidable operational complexity.

The practical principle is straightforward: transition should be assessed across the debt and derivative together, rather than treating the benchmark amendment to each instrument as a separate administrative exercise.

5 The transition is becoming a governance issue

TREASURY OPERATING MODEL

A notable development in recent market commentary is the shift away from discussing ZARONIA solely as a benchmark or legal-documentation project. Attention is increasingly turning to the treasury operating model itself.

Compounded overnight rates increase the importance of data lineage, calculation controls, approvals, audit trails and reproducibility. The technical calculation of compounded ZARONIA is not, by itself, especially difficult. The challenge is ensuring that the calculation is performed consistently, using the correct observations and conventions, subjected to appropriate controls, communicated accurately and reconciled with the associated debt or hedge.

This becomes more demanding where an organisation holds multiple facilities and derivatives across several banks, and can be amplified in project-finance vehicles by long contractual lives, highly structured debt amortisation, lender-controlled hedging requirements and relatively lean treasury resources.

> *The operational question is not merely: Can we calculate ZARONIA? It is: Can we demonstrate, repeatedly and auditably, that the debt and hedge have been administered correctly?*

6 Borrower implementation: where the economics become visible

REFINANCING AND EXECUTION

The final phase of transition is likely to expose another distinction that has received less attention: moving an existing borrower from JIBAR to ZARONIA is not always equivalent to changing a reference-rate definition.

A borrower refinancing existing JIBAR-linked debt may need to terminate existing swaps and replace them with ZARONIA-linked hedges. At that point several economic decisions arise simultaneously:

- What is the mark-to-market value of the existing JIBAR hedge?
- Is terminating it preferable to restructuring it?
- How is the replacement ZARONIA hedge being priced?
- Are the old and new hedge notionals and amortisation profiles aligned?
- What curve is being used to establish independent fair value?
- What credit or capital charges are being incorporated by the hedge provider?
- How much execution risk exists between termination of the old hedge and execution of the new one?

These are no longer benchmark-policy questions. They are transaction questions.

LKA is already seeing this distinction emerge in live refinancing discussions. Borrowers moving onto ZARONIA-linked facilities are beginning to confront the combined economics of terminating legacy JIBAR swaps and establishing replacement ZARONIA hedges.

An observable interbank curve can provide a useful reference point. But a borrower also needs to understand the bridge between that reference curve and the actual transaction price offered by its hedge counterparty. For long-dated infrastructure and project-finance transactions that bridge may incorporate bid-offer, credit, capital, liquidity, collateral assumptions and the particular amortising structure of the hedge.

The transition therefore creates an opportunity to reconsider not simply which benchmark the hedge references, but how hedge pricing and execution are governed more broadly.

7 Market readiness is becoming measurable

WHAT THE EVIDENCE NOW SAYS

The evidence at the end of August is substantially stronger than it was only a few months ago. ZARONIA-linked swap participation is rising. Live interbank curves are observable. Domestic banks are building curve infrastructure. New cash instruments are being issued against compounded ZARONIA. Clearing has migrated further towards the new benchmark and a bulk conversion of remaining cleared JIBAR contracts now has a November date. Borrowers are beginning to implement ZARONIA facilities rather than merely prepare for them.

These are all characteristics of a market progressing towards genuine implementation. Yet readiness remains uneven. The interbank market can mature ahead of the end-user market. Short and medium maturities can become liquid before the long end. A screen curve can become observable before meaningful size can be executed at that level. Legal transition can be completed before operational processes have been tested fully.

That is why liquidity should increasingly be assessed rather than assumed.

For large borrowers, the questions become increasingly transaction-specific:

- What is executable today?
- At what size?
- Across which maturities?
- Under what credit and collateral assumptions?
- How does the price offered to the borrower compare with the observable interbank market?

Those questions were difficult to answer when the ZARONIA market was embryonic. They are becoming answerable now.

What to watch between now and cessation

- How bid-offer and observable liquidity develop across the longer end of the curve.
- How rapidly borrowers transition bilateral legacy positions.
- Whether the November LCH conversion produces a discernible acceleration in offshore ZARONIA activity.
- Whether derivatives liquidity becomes sufficiently robust to support the development of a credible Term ZARONIA benchmark.
- What execution experience reveals about the pricing of ZARONIA for real borrowers rather than simply the construction of the interbank curve.

LKA Perspective

Issue 1 of this series argued that benchmark readiness should not be confused with market readiness.

The evidence since then suggests that the South African market is indeed becoming ready - but not uniformly and not all at once.

The next stage is consequently less about establishing that ZARONIA exists and more about how effectively institutions can use it.

For banks and market infrastructure, that means increasingly deep price formation and reliable execution. For issuers and borrowers, it means understanding new interest-rate conventions and ensuring that debt and derivatives remain aligned. For treasury functions, it means systems, controls, auditability and governance. And for borrowers executing long-dated hedges, it means retaining sufficient independent market visibility to distinguish an observable ZARONIA curve from the economics of the transaction actually being offered.

The benchmark transition is entering its execution phase. Market readiness will increasingly be judged by what can be transacted, administered and independently verified - not simply by what can be quoted.

Information cut-off: 31 August 2026

Selected public references

South African Reserve Bank / Market Practitioners Group - JIBAR transition communications and Transition Approach Recommendations (2026).
LCH SwapClear - ZAR JIBAR conversion notice and ZAR discounting transition materials (2026).
JSE SENS / pricing supplements - examples of 2026 ZARONIA-linked note issuance and compounded daily ZARONIA conventions.
Bloomberg reporting via BusinessTech - July 2026 ZARONIA share of registered rand swap volumes and offshore adoption commentary.
Moneyweb / Intengo Market - commentary on ZARONIA, treasury governance and operating-model readiness.

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