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LKA Market Perspective

South Africa's Transition to ZARONIA: Progress, Challenges and the Road Ahead

The transition from JIBAR to ZARONIA is frequently compared with the United Kingdom's move from GBP LIBOR to SONIA.

The comparison is useful, but it also exposes a fundamental difference.

By the time GBP LIBOR ceased, SONIA was already the principal pricing and liquidity point in sterling swaps. South Africa, by contrast, is transitioning the legacy JIBAR book while the ZARONIA market, its conventions and its liquidity are still developing.

That distinction matters.

SONIA was established before LIBOR disappeared

In January 2020—almost two years before cessation—the Bank of England and FCA described the SONIA derivatives market as already well established. Average cleared OTC SONIA swap activity had exceeded £4.5 trillion per month over the preceding six months and was broadly equivalent to sterling LIBOR activity.

From October 2020, the sterling interdealer market changed its quoting conventions. Pricing screens and swap-curve construction moved from GBP LIBOR to SONIA. SONIA became the primary pricing point, while LIBOR swaps were priced by reference to SONIA plus the LIBOR–SONIA basis.

By June 2021, the UK Prudential Regulation Authority had assessed the SONIA overnight-indexed swap market as deep, liquid and transparent. SONIA bid-offer spreads had narrowed materially and were already tighter than equivalent LIBOR swap spreads at several maturities, including 50 years.

When cessation arrived, more than £13 trillion of cleared GBP LIBOR contracts were converted to SONIA during December 2021. The UK authorities subsequently described the transition as having occurred on time and with minimal disruption.

The cumulative point is more important than any single statistic:

The UK did not move its legacy contracts into an experimental replacement benchmark. It moved them into an established pricing, trading and clearing ecosystem.

ZARONIA is developing under different conditions

South Africa has made substantial progress, but its starting point is different.

LCH cleared the first ZARONIA swaps in September 2024. At the time, the South African Reserve Bank described the ZARONIA swap market as "nascent" and said that clearing would be an important component in building domestic and international liquidity.

The latest published minutes of the SARB-convened Market Practitioners Group show that liquidity remains a live concern.

The Derivatives Workstream reported that volatile global conditions had reduced ZARONIA liquidity and caused market participants to favour the more liquid JIBAR instruments. Although ZARONIA adoption was increasing in aggregate, it remained "significantly below Jibar levels", and the MPG stated that sustained liquidity development was critical to the integrity and credibility of the transition timetable.

The MPG nevertheless retained the "no new JIBAR" milestone as a mechanism for accelerating adoption and reducing the risk of a disorderly cliff effect at cessation. It expects liquidity to develop as new instruments and associated hedging increasingly move to ZARONIA.

This creates an understandable circularity:

Some participants hesitate because liquidity is still developing, while liquidity develops slowly because participants hesitate.

The scale of the legacy market adds to the challenge. At the April MPG meeting, monitored JIBAR exposures remained above R45 trillion. ZARONIA adoption had increased following the cessation announcement but had moderated in early 2026, while a significant proportion of derivative exposures continued beyond the cessation date.

The MPG is also monitoring the possibility of a temporary divergence between domestic and offshore markets, as international participants fall outside the South African supervisory framework and may not follow the same transition timetable.

What the banks are seeing

Recent discussions with leading South African lenders suggest that the transition is not following a single path.

Some early transitions are occurring alongside refinancing or restructuring. For existing facilities, many borrowers have been slower to make decisions.

Costs are one reason. Clients may face protocol, amendment and implementation expenses. At least one lender is therefore reducing or waiving certain costs where it provides both the debt and the associated hedges, partly to encourage earlier transition and avoid a concentration of transactions near year-end.

The choice between active and passive transition is also becoming important.

Passive derivative transition may appear to be the simplest route, but it can introduce its own problems. For example, the standard derivative fallback may apply a two-business-day lookback while the related debt facility uses five business days. A borrower may therefore need an active amendment to keep its debt and hedge conventions aligned.

Corporate treasury processes matter too. For some borrowers, two days may not provide sufficient time to calculate, approve and process a swap payment.

These are not arguments against fallback. They demonstrate that fallback is not necessarily a substitute for making implementation decisions.

Why portfolio oversight matters

For an individual borrower with one facility, one lender and one hedge, these issues may be relatively manageable.

The position is different for infrastructure sponsors with multiple projects, lenders, hedging counterparties and documentation structures.

Each bank will naturally manage:

- its own facilities;
- its own derivatives;
- its own documentation;

- and its own implementation timetable.

No individual lender is responsible for ensuring consistency across the sponsor's entire portfolio.

That responsibility remains with the borrower.

The relevant questions therefore extend beyond whether each contract contains an effective fallback:

- Are the loan and hedge conventions aligned?
- Are lenders proposing consistent economic and operational treatments?
- Will active amendments be required?
- Are legal and treasury teams able to implement the chosen approach in time?
- Could documentation, execution and operational work become concentrated into the final months of 2026?

Large South African hedge transactions also become more difficult to execute as market liquidity and staffing reduce during December. Even where amendments are intended to become effective only at cessation, the strategy, documentation and implementation mechanics should be settled well beforehand.

The lesson from SONIA

The lesson from the UK is not simply that every South African borrower should transition early, irrespective of cost or circumstances.

It is that contractual readiness and market readiness are not the same thing.

A fallback can ensure that a contract continues after JIBAR disappears. It cannot, by itself, create liquidity, align debt and hedge conventions, coordinate several lenders or provide additional operational capacity at year-end.

For large and complex portfolios, the remaining months of 2026 should therefore be used to move from internal debate to a clear sponsor-level strategy, legal review and coordinated implementation planning.

The important question is no longer merely:

Will our contracts transition?

It is:

Will our debt, hedges, documentation and operational processes transition consistently—and have we allowed sufficient time to resolve any differences before year-end?

A cessation date can compel contractual change.

It cannot substitute for market readiness or implementation planning.

Methodology notes

A clearer quantitative comparison of SONIA and ZARONIA would require historical benchmark-level volumes, outstanding notionals, trade counts and tenor distributions. LCH has confirmed that these data exist but form part of its commercial data offering and require a paid licence.

I have not used US-reported swap activity as a proxy for the overall ZAR market. It captures only a partial segment of activity and would not provide a sufficiently representative view of the London-cleared offshore ZAR swap market.

Kind regards,

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