

Update on Accounting implications of ZARONIA implementation

Effective 31 December 2026





Disclaimer

The views and opinions expressed in this presentation are those of the individual. Official positions of the ASB on accounting matters are determined only after extensive due process and deliberation.

Agenda

- Where the JIBAR-to-ZARONIA transition touches GRAP 104 and the Standard's own relief
- A worked example, then the expected credit loss and fair value impacts
- Where PFMA and MFMA entities are exposed, what to disclose and a readiness roadmap before 31 December 2026

Background

- SARB media announcement 3 December 2025
- JIBAR will discontinue after its final publication on 31 December 2026
- In 2022 ZARONIA was named its successor

JIBAR vs ZARONIA

JIBAR

- Forward-looking
- Average lending rate between banks
- Calculated based on indicative quotes from a small group of banks

ZARONIA

- Backward-looking
- Interest rate for rand-denominated overnight wholesale funding transactions
- Based on wide range of actual transactions

Accounting impact

- Impact classification, measurement and disclosures
- Impact on contractual cash flows
 - Leases with variable rates
 - no relief in GRAP 13
 - Financial instruments & Hedge accounting
 - Relief in GRAP 104 and IFRS 9
 - Valuations

Accounting impact (GRAP 104)

- Relief included in Improvement to Standards of GRAP (2023). Effective date is 1 April 2028 and improvements can be early adopted
- Practical expedient: treat changes to contractual cash flows as a modification that requires remeasurement (par 5.16A-5.16E)

Accounting impact illustration

(GRAP 104)

- Entity is the lender, the loan is measured at amortised cost and changes are driven by interest rate benchmark reform
- Original (before benchmark reform)
 - Interest: 3-month JIBAR + 2%
 - Remaining term: 3 Years
 - Interest resets quarterly
 - Carrying amount at reporting date: R1,000

Accounting impact illustration

(GRAP 104)

- Contract amended due to reform
 - Spread adjustment of 0.35%
 - New interest: ZARONIA + 2.35%
 - No change to: Principal, maturity, credit risk, payment frequency
- Are practical expedient requirements met?
 - Changes direct consequence of reform – YES
 - Is new basis economically equivalent - YES

Accounting impact illustration

(GRAP 104)

- Step 1 – do not derecognise the loan
 - No gain or loss is recognised for the modification
- Step 2 – update the effective interest rate (EIR)
 - Recalculate EIR with
 - New ZARONIA based cash flows
 - Discounted over remaining useful life
 - To existing carrying amount

Accounting impact illustration (GRAP 104)

○ Before modification

- Carrying amount R1,000
- Interest recognised per quarter R250
 - $\text{JIBAR (assume 8\%)} + 2\% = 10\% \times \text{R1,000} / 4$

○ After modification

- New rate: ZARONIA (say 7.65%) + 2.35% = 10.00%
- Economically equivalent outcome

Accounting impact illustration *(GRAP 104)*

○ What changed

- The new benchmark is used to calculate variable interest
- New EIR is applied going forward

○ What did not change

- Carrying amount on modification date
- No modification gain or loss

ECL and fair value curves

○ Benchmark reform reaches beyond the effective interest rate

- ECL cash flows are discounted at the EIR so a change on transition changes the discount rate used in every impairment calculation for that instrument
- Instruments valued off a JIBAR-based discount or swap curve need that curve rebuilt on ZARONIA

Where PFMA entities are exposed

○ **Direct sovereign and public-entity exposure runs across notes, loan books and investments**

- National Treasury floating-rate notes and SOE debt issued by entities such as Eskom, Transnet and SANRAL are direct, JIBAR-linked government and public-entity funding
- DFI loan books at the DBSA, Land Bank and IDC plus money-market investments and call accounts, are commonly priced at JIBAR plus a margin

Where MFMA entities are exposed

○ **Municipalities and municipal entities carry exposure across borrowings, bonds and reserves**

- Long-term borrowings from the DBSA, commercial banks and development lenders, typically priced at JIBAR plus a margin
- Floating-rate municipal bonds, overdrafts, bridging facilities and PPP debt-service arrangements commonly priced off JIBAR
- Sinking funds and cash-backed reserves invested in JIBAR-linked money-market instruments will re-price to a ZARONIA basis

Disclosure and governance

○ The disclosure note must tie exposure, judgement and risk together

- Exposure: the nature and carrying amount of instruments still referencing JIBAR that have not yet transitioned
- Judgement: the key assumptions behind the modification or continuation assessment, the EIR recalculation and any credit adjustment spread methodology
- Risk: how benchmark reform affects interest rate risk exposure and management, alongside the usual credit and liquidity risk disclosures

A readiness roadmap

○ **Key actions before 31 December 2026**

- Build a JIBAR exposure register across loans, borrowings, investments, guarantees and derivatives and review fallback language in every contract
- Assess modification versus continuation for each instrument, then rebuild the EIR and ECL models on the new benchmark
- Update valuation curves and treasury systems, then brief the audit and risk committee and draft the disclosure well ahead of year-end

Risks to manage

○ **Risks to close out before the clock runs out**

- Legacy contracts without fallback language cannot easily be amended before cessation, and treasury systems built for a rate known in advance must now handle compounded-in-arrears calculations or adopt Term ZARONIA
- The practical expedient narrows the judgement but does not remove it. Where its two criteria are not met, the conclusion must still be reasoned and documented from first principles



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