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South African Reserve Bank  
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Your ref: Prime Lending Rate  
Consultation

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## CONSULTATION PAPER ON THE CESSATION OF THE PRIME LENDING RATE (PLR)

The Banking Association South Africa (BASA) and its members welcome the South African Reserve Bank (SARB) Consultation Paper on the *Cessation of the Prime Lending Rate*.

We support the SARB's broader objective of modernising South Africa's interest rate benchmark framework, enhancing transparency, and aligning domestic benchmarks with international best practice. We acknowledge the rationale advanced by the SARB that the prime lending rate (PLR) has evolved into an administrative reference rate.

However, given the exceptionally prevalent use of the PLR across South African financial, commercial, legal, and enforcement ecosystems, BASA submits that the manner, scope, and legal architecture of the transition will be determinative of its success. In our view, the proposed reform raises material legal, operational, conduct, and enforcement considerations that require explicit regulatory and legislative intervention to avoid unintended disruption, consumer detriment, and legal uncertainty. i.e. that we consider a regulatory instrument to affect the transition.

We herewith submit our feedback for consideration.

### 1. Quantitative and Regulatory Impact Assessment

BASA would support a comprehensive quantitative impact assessment conducted by the SARB to determine the total value of financial contracts and instruments referencing the PLR, the anticipated transition costs (including system and operational changes) as well as full indicative timeline for transition to ensure well organised implementation planning.

Given the extensive use of PLR across retail, commercial and corporate credit, the impact assessment should also include empirical analysis of the effects of removing PLR on credit pricing behaviour, lending practices, market valuation, as well as interactions with existing regulatory frameworks, including the National Credit Act (NCA) and related disclosure and usury provisions.

Without this analysis, banks and credit providers are unable to assess the systemic, conduct and prudential implications of the proposed reform

## 2. The history of the prime lending rate and its intended use in South Africa

Although there remain conflicting views on the origins and use of the PLR, we welcome the clarity provided by the SARB on the market evolution and origination of the 350-basis point fixed spread and what it represents today.

The Consultation Paper clearly articulates the reasons for the spread not representing a margin, but rather a fixed spread used for transmission and continuity purposes. This is very helpful in the context of the ongoing debates occurring in the media that are misinformed and cast doubt over the structure of monetary policy transmission.

## 3. Pricing

Given the SARB's conclusion that the PLR no longer meets international benchmark standards, including IOSCO principles and the continued misunderstanding of loan pricing in the market, we note the SARB's proposal to adopt the SARB policy rate (SPR) as the preferred successor reference rate for retail lending.

BASA supports the principle that actual lending rates should remain economically unchanged, with reform focusing on disclosure and reference methodology rather than repricing and a structured, phased transition. We also concur that, from a forward-looking perspective, SPR-based pricing enhances transparency and monetary policy transmission, provided that the transition is legally robust, operationally feasible, and consumer-sensitive.

Given the cessation and transition will be accompanied by significant costs, we think changes could also be made under the Financial Sector Regulation Act (FSRA) that would also assist with the ease of transition.

## 4. Contractual and legal considerations

A central concern for BASA and its members is that the Consultation Paper, while acknowledging the extensive use of PLR-linked contracts, understates the breadth of legal and contractual reliance on the PLR.

In practice, the PLR is used not only in retail and commercial loan or credit agreements, but also extensively in (*this is not an exhaustive list*):

- Settlement agreements and repayment arrangements.
- Acknowledgements of debt.
- Consent orders, judgments, and court-sanctioned settlements.
- Debt review orders and restructuring arrangements under the National Credit Act (NCA).
- Insolvency, business rescue, and deceased estate administration.
- Payment mandates and debit order authorisations.
- Commercial and procurement contracts unrelated to credit.
- Disclosure documents, statements, quotations, and consumer communications.

The cessation of the PLR therefore has direct implications for enforceability, interpretation, and performance, particularly in legacy contracts and instruments.



BASA accordingly submits that the SARB's transition framework must be designed on the basis that PLR usage extends well beyond lending origination, and that failure to address these broader use-cases will result in fragmentation, disputes, and enforcement risk.

BASA's members will face significant legal risk due to the volume of private contracts and other instruments that reference the PLR and will need to ensure that existing contracts and instruments are transitioned carefully to avoid disputes, contractual challenges, restitution claims and allegations of unfair terms. These contracts and instruments may not contain any fallback provisions to deal with an immediate cessation of the PLR.

BASA strongly supports the Consultation Paper's recognition that mass bilateral renegotiation of existing PLR-linked contracts and instruments is not feasible, particularly in the retail environment. In light thereof, we submit that, existing sectoral legislation (notably the NCA) imposes strict substantive and procedural requirements for interest rate variation; many contracts contain non-variation clauses or formal amendment requirements and unilateral substitution of reference rates, absent statutory authority, would expose institutions to legal challenge, conduct risk, and litigation. Accordingly, clear, express legislative safe-harbour provisions are not merely desirable, but essential.

BASA and its members would submit that effective transition legislation should:

- Provide automatic statutory substitution, such that any reference to the PLR in a defined class of legacy contracts is deemed, by operation of law, to refer to the SPR plus a designated adjustment spread.
- Preserve economic equivalence, avoiding value transfer and unintended repricing.
- Override conflicting provisions in sectoral legislation, including the NCA and related conduct standards, to the extent necessary to give effect to the substitution.
- Extend beyond "credit agreements" to cover settlements, judgments, acknowledgements of debt, payment mandates, and enforcement instruments.
- Apply consistently across retail, commercial, and corporate banking contexts.

BASA and its members supports a legislative approach to transition.

## **5. Operational and system impact**

The proposed reform will require extensive operational, systems and process changes across products, platforms and business lines. This includes changes to:

- pricing engines and loan administration systems;
- disclosures, statements and customer documentation; and
- internal controls, staff training and governance frameworks.

Sufficient time and regulatory certainty are therefore required to support safe and effective implementation. This should be aligned with the approach taken during the JIBAR transition which includes clearly defined timelines and a structured migration path

## **6. Consumer education and communication**

BASA agrees with the SARB that the transition from PLR-based to SPR-based pricing presents material consumer perception risk. An SPR-plus margin will appear numerically larger than an PLR-plus margin, notwithstanding identical effective rates. Consumers may perceive SPR-based products as "more expensive". Inconsistent or piecemeal adoption across institutions may distort product comparison and



consumer choice. For example, consumers make use of NCA quotations to compare credit products, if these credit products use different reference rate (PLR versus SPR) it may create confusion and selection of a credit product to the detriment of the consumer.

We therefore support:

- A coordinated industry communication strategy.
- Standardised disclosure principles.
- Adequate transition periods; and
- Clear regulatory messaging confirming that pricing outcomes are unchanged.

Consumer education will be critical to avoid increased complaints, disputes, and reputational harm during the transition. Regulators such as the SARB, the National Credit Regulator (NCR), and the Financial Sector Conduct Authority (FSCA) should therefore lead clear, broad based educational campaigns to explain the reform, reinforce that instalments or repayments will remain unchanged, and ensure consistent messaging.

## **7. Transition approach and timing**

BASA supports the SARB's indication that a transition should only commence after completion of the JIBAR cessation and that a phased approach be implemented only after receipt of the quantitative and regulatory impact assessment been distributed to all interested parties.

Given the scale and complexity of PLR usage, we submit that sufficient time must be allowed for:

- Contract inventories and impact assessments.
- Systems and process changes.
- Legislative development; and
- Stakeholder and consumer engagement.

## **8. Benchmark choice considerations**

The Consultation Paper provides a clear explanation of why the SPR is favoured over an IOSCO compliant market derived rate.

Transitioning from a "PLR ± margin" methodology to an "SPR + margin" framework constitutes a fundamental change to the construction of variable interest rates. This affects the benchmark input, the rate formula, and consumer understanding of pricing. Under the NCA, changes to the method of calculating interest is regarded as material amendments and require explicit consumer consent.

The Consultation Paper's rationale, particularly alignment with IOSCO benchmark principles is sound and consistent with global reforms. However, the Consultation Paper does not fully address:

- Whether the SPR can function as a robust market benchmark for retail and wholesale lending.
- How South Africa will benchmark itself internationally once PLR is discontinued.
- Whether future adjustments to SPR methodology could indirectly affect lending markets.

Therefore, a greater visibility into longer-term benchmark governance is recommended.



## 9. Alternative Approach and Recommendation

A full transition from PLR to a new benchmark would require significant system, operational, and contractual changes, with limited consumer benefit given that pricing is ultimately driven by funding costs and credit risk.

As an alternative, the least disruptive approach could be to apply SPR only to new lending contracts, allowing existing PLR portfolios to run off naturally or for existing contracts to fallback through a legislative approach.

It is estimated that over 12 million active credit agreements, representing approximately R3.2 trillion in exposure, currently reference the PLR. Retrospective amendment would require extensive contract review, consumer engagement, and system changes.

## 10. General Comments

It is unclear how this change will impact the reference point of the Monetary Policy Change (MPC) and subsequent exercise of the interest rate as a monetary policy lever. Will this result in an MPC from SARB with regards to setting interest rates?

## 11. Conclusion

BASA notes the SARB's objective of discontinuing the PLR and modernising South Africa's benchmark framework. However, we submit that the success of the reform will depend less on the choice of successor rate, and more on the legal architecture of the transition.

In summary, BASA urges the SARB to ensure that the transition framework:

- Fully recognises the breadth of PLR usage across the financial and legal ecosystem.
- Is underpinned by clear, comprehensive statutory safe-harbour provisions.
- Provides automatic substitution with economic neutrality.
- Overrides conflicting sectoral legislation where necessary.
- Is coordinated across regulators and industry participants.
- Is accompanied by robust consumer communication and education.

We recommend that the transition process should be led through a SARB working group (like the Market Practitioners Group; with the inclusion of the retail-based divisions within the banks), enabled with FSRA legislation, to only start commencement after the cessation of Jibar.

BASA and its members remains committed to constructive engagement with the SARB, and other stakeholders to support a legally sound, orderly, and consumer-sensitive transition away from the PLR.

Yours sincerely



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