11 December 2019

Mr Scott O'Malia, Chief Executive Officer
Ms Katherine Tew Darras, General Counsel

International Swaps and Derivatives Association (ISDA)
360 Madison Avenue, 16th Floor
New York, NY 10017

By email

Dear Mr O'Malia and Ms Tew Darras,

Enhancing Contractual Robustness for Derivatives Referencing the Singapore Dollar Swap Offer Rate (SOR)

1 I am writing to you in my capacity as the Chair of the Steering Committee for SOR Transition to SORA[1] (SC-STS), an industry-led body established by the Monetary Authority of Singapore (MAS) to oversee an industry-wide transition from SOR to SORA. The Committee's mandate includes the implementation of robust contractual fallback arrangements for SGD interest rate derivatives that reference SOR (SOR derivatives). This letter relates to this specific issue.

2 First, I would like to thank ISDA for your strong leadership in developing new contractual fallbacks for interest rate derivatives. In particular, ISDA's May 2019 public consultation[2] had proposed a contractual fallback approach for SOR derivatives, to address the risk of a permanent discontinuation of SOR arising from the end of USD LIBOR. This is very important work for safeguarding the continued functioning of the SGD interest rate derivatives market.

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[1] SOR is the Singapore Dollar (SGD) Swap Offer Rate published by the ABS Benchmarks Administration Co Pte Ltd. SORA is the Singapore Overnight Rate Average published by the MAS, and reflects the volume-weighted average rate of all SGD overnight cash transactions brokered in Singapore daily between 9:00 am to 6:15 pm.

[2] "Supplemental Consultation on Spread and Term Adjustments for Fallbacks in Derivatives Referencing USD LIBOR, CDOR and HIBOR and Certain Aspects of Fallbacks for Derivatives Referencing SOR", ISDA, 16 May 2019, https://www.isda.org/a/n6tME/Supplemental-Consultation-on-USD-LIBOR-CDOR-HIBOR-and-SOR.pdf

3 Regarding the results of this public consultation, I note in the Brattle Report[3] that there was good support for the use of Adjusted SOR[4] as a fallback reference rate for SOR derivatives. Specifically, of the 52 respondents who provided feedback to ISDA's question on SOR fallbacks, 45 (~85%) had no concerns with ISDA's proposed approach to use Adjusted SOR as the fallback reference rate. However, the Brattle Report also highlighted that ISDA would seek inputs from the Association of Banks in Singapore and Singapore Foreign Exchange Market Committee (ABS-SFEMC) or the SC-STS, on the appropriateness of Adjusted SOR as the fallback reference rate, given the ABS-SFEMC report on a market transition from SOR to SORA published on 30 August 2019.

4 The SC-STS has undertaken a thorough review of this issue. In particular, the Committee considered the appropriateness of both Adjusted SOR, as well as a fallback rate based on SORA (hereafter "Adjusted SORA")[5]. After considerable deliberation, the Committee decided that Adjusted SOR was the more appropriate fallback rate. Notably, relative to Adjusted SORA, Adjusted SOR is more similar to and correlated with SOR. Accordingly, it was assessed that Adjusted SOR as the fallback reference rate would reduce the risk of value transfer, and receive greater market support. Overall, we found no strong reason to revisit the results of ISDA's May 2019 public consultation, which already showed good support among market participants for the use of Adjusted SOR.

5 The implementation of this fallback to Adjusted SOR will accompany the on-going transition of the SGD interest rate derivatives market from SOR to SORA, which the Committee is fully committed to implementing by end-2021. Adjusted SOR will serve mainly as a fallback reference rate for legacy contracts, while new SGD interest rate derivatives will reference SORA. We also support the view that the best and smoothest transition will be one where contracts that reference LIBOR (or SOR in this case) are replaced or amended before fallback provisions are triggered.[6] This should see reduced reliance on Adjusted SOR as a contractual fallback reference rate, and hence a smaller legacy stock of such contracts in the period thereafter.

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[3] We refer to the Brattle Report which summarizes the responses to the July 2018 Consultation, found here: http://assets.isda.org/media/04d213b6/db0b0fd7-pdf/.

[4] Defined as "a fallback reference rate based on actual transactions in the USD/SGD FX swap market and a USD interest rate calculated pursuant to the methodology used to calculate fallbacks for USD LIBOR in the updated 2006 ISDA Definitions."

[5] Based on SORA compounded in arrears, with a spread adjustment based on historical mean/median approach, similar to the approach adopted for the fallbacks to Adjusted RFR for the LIBOR currencies.

[6] Speech by Edwin Schooling Latter, Director of Markets and Wholesale Policy, UK FCA, 28 January 2019. https://www.fca.org.uk/news/speeches/libor-transition-and-contractual-fallbacks.

6 To conclude, the SC-STS acknowledges the results of ISDA's May 2019 consultation, which showed market participants' support for a fallback to Adjusted SOR. The SC-STS supports the implementation of the said fallback approach. The Committee looks forward to ISDA's implementation of this fallback by early next year, together with the contractual fallbacks for derivatives that reference LIBOR and other key interest rate benchmarks.

Yours Sincerely,

Samuel Tsien
Chair of the Steering Committee for SOR Transition to SORA

cc Leong Sing Chiong, Assistant Managing Director, Monetary Authority of Singapore