



TIMELINES TO CEASE ISSUANCE OF SGD SWAP OFFER RATE (SOR) LINKED FINANCIAL PRODUCTS

27 October 2020

Steering Committee for SOR Transition to SORA

1 Background

1.1 SORA Identified to Replace SOR in SGD Interest Rate Markets

1.1.1 The SGD Swap Offer Rate (“SOR”) is an FX swap implied interest rate benchmark, calculated from actual transactions in the USD/SGD FX swap market, and using USD LIBOR in its computation. SOR is the reference rate in SGD interest rate derivatives, and is also widely used in SGD cash market products, such as business loans, syndicated loans, retail mortgages, and floating rate notes (see [Fig. 1](#)).

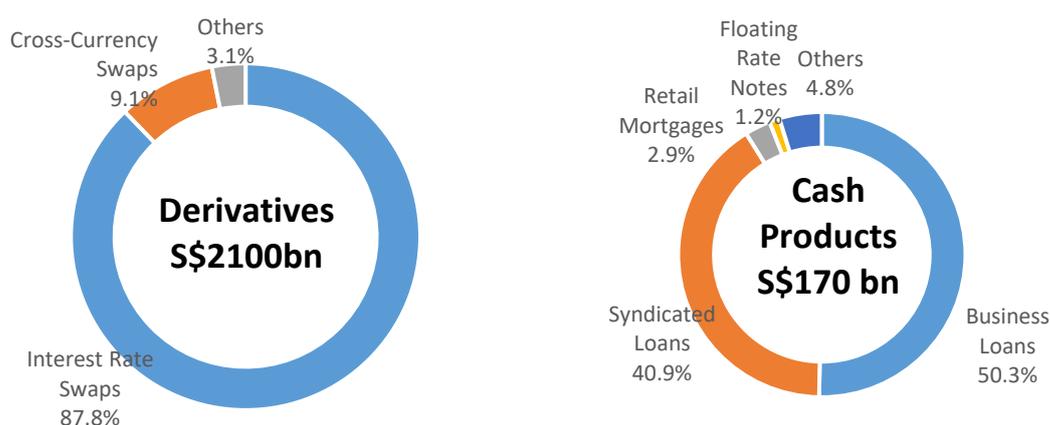


Fig. 1: Outstanding Exposure of SOR in various product groups based on 133 bank submissions¹

1.1.2 On 30 August 2019, the Association of Banks in Singapore and the Singapore Foreign Exchange Market Committee (“ABS-SFEMC”) issued a consultation report identifying the Singapore Overnight Rate Average (“SORA”) as the risk-free-rate (“RFR”) in Singapore to replace SOR in SGD interest rate markets². This recognised that SOR relies on USD LIBOR in its computation methodology and would have to be discontinued when USD LIBOR is discontinued. UK authorities had announced that LIBOR would not be sustained by regulatory powers after end-2021. They also highlighted that the discontinuation of LIBOR was not a “black swan event”, but something which global financial markets need to respond to and be prepared for.³

¹ The numbers are aggregated from a survey conducted by the Monetary Authority of Singapore (“MAS”) in 1H 2020 which comprised a quantitative survey to size banks’ exposure to LIBOR/SOR as of December 2019 (local bank numbers are reported at consolidated group level) and a qualitative survey to assess banks’ benchmark transition progress in a structured manner. This has a different reporting basis from the trade repository data that has previously been referenced in respect to outstanding exposures to SOR, which provide a monthly snapshot of Aggregate Gross Notional Value of Open Positions, which stood at about US\$2.6 trillion in June 2020. See <<https://www.mas.gov.sg/statistics/otc-derivatives-statistics/monthly-statistics>>.

² See ABS-SFEMC’s Public Consultation on Roadmap for Transition of Interest Rate Benchmarks: From SOR to SORA (30 August 2019) <<https://www.abs.org.sg/docs/library/consultation-report.pdf>>

³ See speech by Andrew Bailey, Chief Executive of the UK Financial Conduct Authority (FCA) on Interest rate benchmark reform: transition to a world without LIBOR (12 July 2018) <<https://www.fca.org.uk/news/speeches/interest-rate-benchmark-reform-transition-world-without-libor>>

1.1.3 On 19 March 2020, the Steering Committee for SOR Transition to SORA (“**SC-STs**”) published a report⁴ summarizing key feedback from the consultation, and set out a transition roadmap (“**Roadmap**”)⁵ to guide the development of new SORA-based markets in loans, bonds and derivatives, and the transition from legacy SOR use to SORA. This set out work in five key areas – (i) establishing market conventions and infrastructure; (ii) building liquidity in SORA markets; (iii) transitioning out of SOR legacy contracts; (iv) industry readiness; and (v) customer engagement.

1.2 Progress in Preparations for Transition to SORA

1.2.1 The industry has made steady progress to prepare for market-wide adoption of SORA in SGD financial products. Notable areas of progress⁶ included:

- In cash markets:
 - Notices sent to issuers of SOR-referencing debt securities (floating rate notes, perpetual securities, and capital instrument with features to reset interest rates based on SOR) on the need to prepare for transition from SOR to SORA.
 - Pilot commercial issuances of SORA floating rate notes from May 2020. Additionally, MAS commenced in August 2020 a programme for monthly issuance of SORA floating rate notes, in growing size as part of regular money market operations.⁷ MAS also commenced daily publishing of 1-month, 3-month and 6-month Compounded SORA and a SORA Index, to provide market participants with standardised references to compounded averages of SORA over relevant periods, for use in SORA products.
 - Pilot launches of a range of SORA-referencing business and retail loans. This included the first bilateral business loan in June 2020, the first retail home loan in July 2020, first product referencing MAS-published Compounded SORA rates in August 2020, and the first business property mortgage loan, dual currency SORA-SOFR loan, and syndicated/club loan in September 2020.⁸

- In derivatives:
 - Publication of contract templates for SORA derivatives;⁹
 - Establishment of key market infrastructure including central clearing of SORA derivatives by LCH, SORA market data on platforms such as Bloomberg, Refinitiv and broker screens, and broker participation in SORA derivatives;

⁴ See SC-STs’ Response to Feedback Received on proposed Roadmap for Transition from SOR to SORA (19 March 2020) <<https://www.abs.org.sg/docs/library/sc-sts-response-paper.pdf>>

⁵ See SC-STs’ Transition Roadmap <<https://www.abs.org.sg/benchmark-rates/transition-roadmap>>

⁶ See SC-STs’ Media Release: Singapore Makes Significant Progress in Preparing for the SOR to SORA Transition <<https://www.abs.org.sg/docs/library/sora-industry-press-release-final-v3.pdf>>

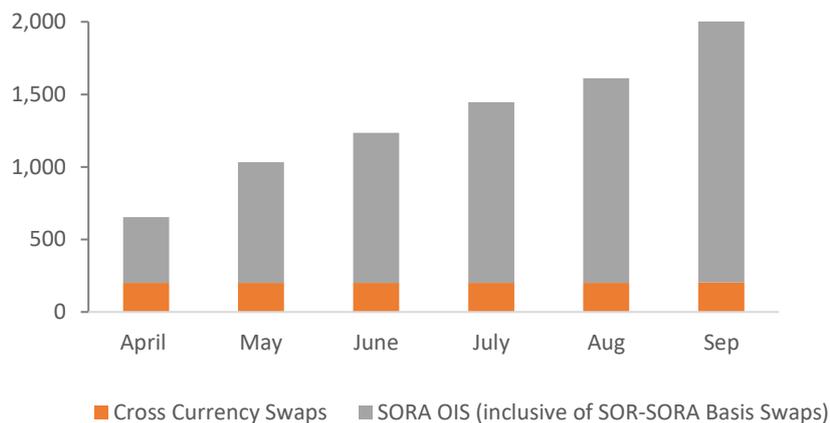
⁷ See outstanding stock of MAS SORA Floating Rate Notes <<https://www.mas.gov.sg/bonds-and-bills/outstanding-mas-frn>>

⁸ See SC-STs’ announcements of notable SORA cash market issuances <<https://www.abs.org.sg/benchmark-rates/announcements>>

⁹ See SC-STs’ publications for market conventions for SORA Overnight Index Swaps, Cross-Currency Swaps, SOR-SORA Basis Swaps <<https://abs.org.sg/benchmark-rates/publication>>

- Establishment of a daily MAS auction in SORA derivatives to facilitate price discovery in a nascent SORA derivatives market;¹⁰
- Increasing SORA derivatives transactions undertaken by major dealer banks in Singapore (see [Fig. 2](#));
- Publication of Fallback Rate (SOR) and contractual fallbacks for SOR derivatives, culminating in the launch of the ISDA IBOR Fallbacks Supplement and Protocol on 23 October 2020¹¹.

Fig. 2: Gross Notionals of SORA Trades (\$m)



Source: MAS estimates

- Communications and public education comprising:
 - Direct outreach by many major banks via publication of research articles, media engagement, customer letters and frequently-asked-questions (FAQs)¹²; and
 - Seminars and workshops¹³, and other outreach programmes to share knowledge with buy- and sell-side participants, and working through major law and accounting firms in Singapore to support Singapore-based companies in their transition journey.

1.2.2 In October 2020, the SC-STS published a set of market guides to help users prepare for the shift away from SOR, and for adoption of SORA across a range of financial products (derivatives, floating rate notes, business and retail loans). These included:

¹⁰ See details in speech by Jacqueline Loh, Deputy Managing Director of the Monetary Authority of Singapore at ABS' Roundtable Session on SGD Interest Rate Landscape Changes on 9 September 2020
<<https://www.abs.org.sg/docs/library/keynote-speech-by-mas-deputy-managing-director-at-abs-roundtable-session-on-sgd-interest-rate-landscape-changes.pdf>>

¹¹ See ISDA Board Statement on the IBOR Fallbacks Supplement and Protocol (9 October 2020)
<<https://www.isda.org/2020/10/09/isda-board-statement-on-the-ibor-fallbacks-supplement-and-protocol/>>

¹² See SC-STS' publication for frequently-asked-questions for consumer, corporates and bond issuers
<<https://www.abs.org.sg/benchmark-rates/faq>>

¹³ See SC-STS' Events page for information on selected seminars and workshops held
<<https://www.abs.org.sg/benchmark-rates/events>>

- A report on customer segments and preferences, setting out how SORA can be used in loans to meet the various needs of financial firms, large corporates, small and medium-sized enterprises, and retail customers.¹⁴
- A SORA market compendium, providing market participants with a comprehensive overview of SORA market conventions across derivatives, floating rate notes, business and retail loans, and outlining considerations for contractual and technical specifications of SORA products and contractual fallbacks for relevant SOR contracts.¹⁵
- An end-user checklist produced in collaboration with the Association of Corporate Treasurers Singapore (ACTS), Investment Management Association of Singapore (IMAS) and Life Insurance Association Singapore (LIA), providing non-financial corporates, investment firms, insurers and other buy-side participants with a list of key steps needed to effectively implement the transition from SOR to SORA, and from LIBOR to alternative reference rates.¹⁶

1.3 Need for Intermediate Timelines to Coordinate a Shift from SOR

1.3.1 With key technical preparation work largely in place, the SC-STs decided that it would be timely to publish market guidance on ceasing usage of SOR.

- With only slightly more than a year to the expected discontinuation of SOR and LIBOR after end-2021, it would be important for all market participants to take proactive steps to reduce reliance on SOR. Each further issuance of a SOR referencing product adds to the financial and operational risks that users face in referencing a benchmark that is set to be discontinued.
- While the industry had made good progress with pilot SORA issuances, the continued availability of SOR products impedes further development of SORA markets. Clear intermediate timelines to cease usage of SOR well ahead of end-2021 were thus necessary to help galvanise the market to exit from SOR usage in new contracts, and accelerate usage of SORA.
- The committee noted that such intermediate timelines had also been identified in other jurisdictions globally in US, UK and Japan among others, including specific timelines primarily in 1H 2021 for ceasing issuance of LIBOR-referencing contracts that mature after end-2021. Meanwhile, the Financial Stability Board (“FSB”) had published a Global Transition Roadmap for LIBOR in October 2020, with recommendations for firms to be in a position to offer non-LIBOR linked loan products to their customers by end-2020.¹⁷

1.3.2 This document outlines SC-STs’s key considerations and timelines to support a coordinated shift away from the use of SOR in financial products, and to concurrently accelerate usage of SORA.

¹⁴ See Overview on the Usage of SORA in Loans: Customer Segments and Preferences (27 October 2020) <<https://abs.org.sg/docs/library/overview-on-the-usage-of-sora-in-loans-customer-segments-and-preferences.pdf>>

¹⁵ See SORA Market Compendium on the Transition from SOR to SORA (27 October 2020) <<https://abs.org.sg/docs/library/sora-market-compendium-on-the-transition-from-sor-to-sora.pdf>>

¹⁶ See SC-STs End-User Checklist on Benchmark Transition (27 October 2020) <<https://abs.org.sg/docs/library/sc-sts-end-user-checklist-on-benchmark-transition.pdf>>

¹⁷ See FSB’s Global Transition Roadmap for LIBOR (16 October 2020) <<https://www.fsb.org/2020/10/fsb-publishes-global-transition-roadmap-for-libor/>>

2 Key Considerations

The following considerations guided SC-STs' decision on timelines for shifting away from the use of SOR in financial products, and for concurrently accelerating usage of SORA.

2.1 Need to cease issuance of SOR referencing cash market products, to avoid adding to the number of users and stock of contracts that would be impacted by contract renegotiation and remediation. Cash market products such as business loans, syndicated loans, retail mortgages, and floating rate notes generally do not have a mechanism or ISDA-equivalent protocol for efficient industry-wide remediation of legacy contracts. Financial institutions should cease issuance of such SOR-referencing contracts as soon as possible, so that on-going efforts at stock-taking, bilateral outreach to clients and counterparties, and contract renegotiation and remediation, which take time, can be brought to completion before end-2021.

2.2 Advance notice required before ceasing usage of SOR in new contracts. While the need to transition from SOR to SORA is not new, SC-STs recognised that market participants may not be prepared for the immediacy of the proposed cessation of new SOR usage. Banks would need time to update clients, and clients – particularly larger institutions that would require system and operational changes – would need time to prepare for the transition.

2.3 Need for SORA-based financing to be available before SOR-based usage is discontinued. There should be a sufficiently wide availability of SORA products before issuance of new SOR-linked cash market products is ceased. This would ensure that customers have adequate time to seek out new financing options before SOR-linked products become unavailable.

- Given tight timelines, it would not be practical to ensure that all banks are ready to offer SORA products well before discontinuation of SOR-based financing.
- However, the major banks in Singapore must minimally be able to do so. The Domestic Systemically Important Banks¹⁸ (“**DSIBs**”) have committed to offering SORA products in scale by no later than end-February 2021, building on on-going progress in SORA loan issuances since mid-2020.

2.4 Need to sequence transition: cease cash usage first, then derivatives. The use of SOR in cash market products would need to cease first so that the demand for SOR derivatives for hedging and risk management is removed. Only then can a meaningful unwind of legacy SOR derivatives exposures take place.

2.5 Sufficient time needed for unwinding of exposures to SOR derivatives. Given the scale of legacy SOR derivatives¹⁹, sufficient time has to be catered for the conversion from SOR to SORA.

- In a poll of SC-STs main committee and sub-group members, most key industry players highlighted that they would require at least 9 months to unwind their stock of outstanding SOR derivatives contracts. This could involve a combination of active trading in SOR-SORA basis²⁰ and compression of gross SOR derivatives exposures.

¹⁸ The following banking groups are [designated by MAS](#) as DSIBs: DBS Bank, Oversea-Chinese Banking Corporation, United Overseas Bank, Citibank, Malayan Banking Berhad, Standard Chartered Bank, and the Hongkong and Shanghai Banking Corporation.

¹⁹ See MAS' [website](#) for monthly statistics on SGD derivatives.

²⁰ For avoidance of doubt, all SOR-SORA basis swaps transactions should be booked as two separate transactions – i.e. one fixed-float SOR IRS and one fixed-float SORA OIS, instead of one SOR-SORA float-float

- Many institutions expect to significantly unwind transactions with other financial institutions, particularly cleared interbank transactions, while active engagement by banks with their corporate customers would be necessary to exit from derivatives that used to hedge existing loans. These are estimated at about 5% of gross derivatives exposures at the system level, and about 10-15% for banks with larger loan books.

2.6 Need to incorporate contractual fallbacks in legacy contracts. Contractual fallbacks will provide a safety net to mitigate against risks of contractual frustration or settlement issues when SOR is discontinued. This is to cater to the situation where market participants are unable to complete the transition of all their SOR contracts to SORA by end-2021.

- ISDA has officially launched the ISDA IBOR fallback Supplement and Protocol on 23 October 2021, which would take effect on 25 January 2021. SC-STs, along with FSB²¹ and national working groups globally (refer to Annex B) strongly recommend all market participants to adhere to the protocol before the effective date in January 2021.
- SC-STs' market guidance on contractual fallbacks for floating rate notes, business and retail loans can be found in the SC-STs' SORA Market Compendium²² published in October 2020. This will provide the necessary guidance to market participants to incorporate fallbacks in their cash market contracts in the coming months.

3 Transition Timelines

3.1 In view of the above considerations, the SC-STs has agreed to establish the following timelines for the transition from SOR to SORA.

- **By end-April 2021**, all lenders and borrowers to cease issuance of SOR-linked loans and securities that mature after end-2021;
- To support this, all Domestic Systemically Important Banks (D-SIBs) should be ready to offer a full-suite of SORA-based products to their customers **by end-February 2021**, while all non-DSIB banks should be ready to offer new SORA-based products **by end-April 2021**.
- **By end-September 2021**, all banks to have substantially reduced gross exposures to SOR derivatives, including centrally cleared interbank transactions. Relative to the stock of outstanding contracts as reported by the bank to MAS' May 2020 survey, to reduce this to:
 - 90% by end-2020
 - 70% by Q1 2021
 - 50% by Q2 2021
 - 20% by Q3 2021

transaction. Booking a SOR-SORA basis swap transaction as two separate transactions will allow compression cycles to subsequently compress the SOR IRS transactions, while leaving the SORA OIS intact. If the SOR-SORA basis swap were to be booked as a single float-float transaction, it would be difficult to exit the position subsequently. This convention is set out in the SC-STs' market compendium

<<https://abs.org.sg/docs/library/sora-market-compendium-on-the-transition-from-sor-to-sora.pdf>>

²¹ See FSB's Global Transition Roadmap for LIBOR (16 October 2020) <<https://www.fsb.org/2020/10/fsb-publishes-global-transition-roadmap-for-libor/>>

²² See SORA Market Compendium on the Transition from SOR to SORA (27 October 2020)

<<https://abs.org.sg/docs/library/sora-market-compendium-on-the-transition-from-sor-to-sora.pdf>>

These targets would serve as a guidance and apply to transactions with external / unrelated counterparties, while intragroup transactions are expected to be unwound at a faster pace.

- To incorporate contractual fallbacks in all existing SOR derivatives **when ISDA's IBOR Fallback Protocol becomes effective on 25 January 2021**. Likewise, to incorporate contractual fallbacks **by end-Q2 2021** in a majority of SOR referencing cash market products (loans and FRNs) that mature after end-2021, and which would not be transitioned to alternative reference rates.

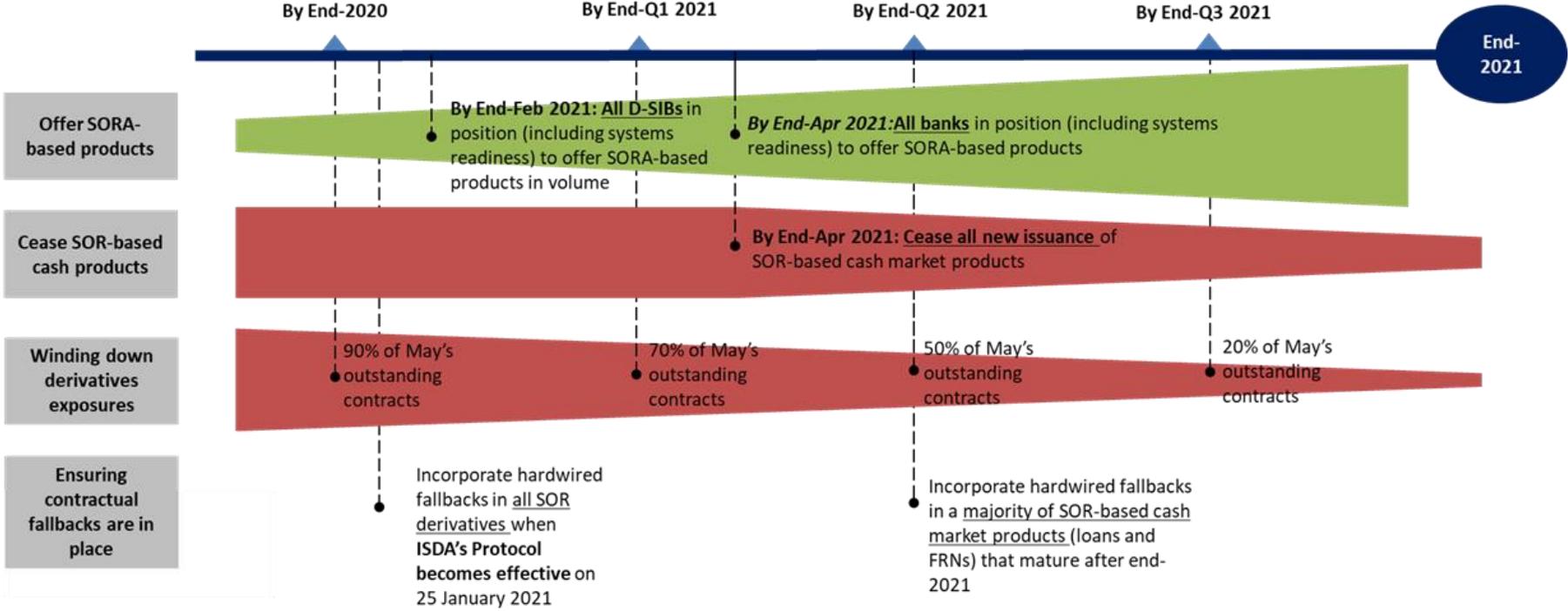
3.2 A summary of the transition timelines is set out in [Annex A](#). A comparison of SC-STS' timelines against the timelines of other key LIBOR jurisdictions can be found in [Annex B](#).

4 Conclusion

4.1 The SC-STS strongly urges market participants to take immediate steps to prepare for the expected discontinuation of SOR after end-2021.

- Market participants should cease further usage of SOR in new contracts as soon as practicable, reduce legacy exposures to SOR, and implement fallback arrangements in SOR contracts that cannot be transitioned to a SORA or alternative reference before end-2021.
- Institutions should also accelerate operational and system changes, staff training and client outreach, to prepare for wider usage of SORA in financial products.
- The identified timelines represent for institutions and SGD markets a prudent path towards mitigating financial risks from eventual SOR discontinuation, and to ensuring continued access to key funding markets beyond end-April 2021 when usage of SOR in new cash market contracts will effectively cease.

Industry Guidance for Cessation of New SOR originations



Note: the shaded shapes in green and red represent figuratively the stock of SORA and SOR contracts

Cross-Jurisdiction Analysis

Theme	Expected to be completed	End Q4 2020	End Q1 2021	End Q2 2021	End Q3 2021	End Q4 2021
Offer non-LIBOR / non-SOR linked products	UK: Bonds, loans securitizations	UK: non-linear and cross currency derivatives	SG: D-SIBs by end-Feb	SG: All banks by end-Apr		
Ensuring clear contractual arrangements are in place	UK: In new/refinanced loans, student loans, mortgages and securitizations	US: bilateral loans (end-Oct)		UK: All tough legacy contracts SG: Majority of SOR-based legacy contracts		
ISDA Protocol		CH/UK/SG: Before ISDA Protocol effective Date US: Within 4 months after ISDA's Supplement Launch				
Tech/Ops vendor readiness	US: FRNs, business loans, consumer loans	UK: non-linear derivatives US: securitizations	JP: loans and bonds (fixing in arears)			
Cease new issuance of LIBOR/SOR-linked products	US: mortgages	US: FRNs	UK: Loans, linear derivatives	UK: Non-linear and cross currency US: derivatives, business loans, securitizations (except CLOs) JP: Bonds and loans SG: All SOR-based cash market products (end-Apr)	US: CLOs	CH: no binding deadline but NWG recommendation is cease issuance of LIBOR-based products with maturities beyond 2021.
Reduce Stock		UK: initiate conversion of legacy contracts SG: 90% of May 2020 outstanding derivatives	UK: Accelerate conversion of legacy contracts SG: 70% of May 2020 outstanding derivatives	UK: Convert linear derivatives; complete conversion of cash products, where possible	JP: "significantly reduce" stock of legacy loans and bonds SG: 20% of May 2020 outstanding derivatives	
				SG: 50% of May 2020 outstanding derivatives		

References:

- [UK Sterling Risk Free Rate Working Group on Sterling Risk-Free Reference Rates \(RFR WG\) 2020-21 Top Level Priorities](#)
- [ARRC Recommended Best Practices for Completing the Transition from LIBOR](#)
- [Second public Consultation on the Appropriate Choice and Usage of Japanese Yen Interest Rate Benchmarks](#)