

MEDIA RELEASE

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SC-STs OUTLINES ROLE OF FALLBACK RATE ARRANGEMENTS FOR SOR DERIVATIVES

1 Singapore – The Steering Committee for SOR Transition to SORA (SC-STs or the Committee) today outlined its views on the role played by Fallback Rate (SOR)¹ in the ongoing transition from SOR to SORA, and reiterated its support for the use of Fallback Rate (SOR) as the primary fallback reference rate for SOR derivatives.² This comes as the International Swaps and Derivatives Association (ISDA) prepares to launch its IBOR Fallback Protocol, which is expected soon.

2 Under the SOR-to-SORA transition roadmap set out by the Committee, market participants should transition from SOR to SORA well ahead of end-2021. This will ensure that parties to outstanding SOR transactions have good control over the timing and execution of their transition plans. There could, however, be scenarios where market participants are unable to complete the transition for all their contracts despite best efforts. Having robust contractual fallbacks in place will thus be important to address the risks of contractual frustration and settlement issues following the discontinuation of SOR.

3 The Committee has worked closely with ISDA to incorporate Fallback Rate (SOR) as the primary fallback reference rate for SOR derivatives, with SORA-based reference rates ranking lower in the hierarchy of fallbacks and applying if Fallback Rate (SOR) is unavailable.³ Market participants can incorporate the hierarchy of fallbacks into existing SOR contracts by adhering to the ISDA's IBOR Fallback Protocol, which is expected to be launched soon.

4 Nevertheless, the Committee also emphasised that Fallback Rate (SOR) is intended solely as a fallback reference rate, and is not intended for usage in new derivative contracts. As the SGD derivatives market has adopted SORA as its key reference rate, contracts referencing Fallback Rate (SOR) will likely become illiquid, challenging to value, and difficult to transition from.

5 To limit the reliance on Fallback Rate (SOR) and pre-empt any possible bifurcation of the market between SORA and Fallback Rate (SOR), the Committee announced that Fallback Rate (SOR) will only be published for about three years following the fallback trigger, after which time Fallback Rate (SOR) is expected to be permanently discontinued.

¹ Fallback Rate (SOR) is a FX-implied rate like SOR, but uses the fallback for USD LIBOR (i.e. compounded SOFR plus spread adjustment) instead of USD LIBOR as input. Fallback Rate (SOR) will be administered by ABS Co.

² See SC-STs' [letter](#) to ISDA (11 December 2019).

³ The Committee had considered a primary fallback reference rate based on SORA. However, given the unique nature of SOR as an FX-implied benchmark, industry feedback indicated that the use of Fallback Rate (SOR) as a fallback reference rate would significantly reduce the risk of inadvertent value transfer when fallback arrangements are triggered.

6 Further information on fallbacks for contracts that reference SOR, and the Committee's transition plans can be found in a [new section](#) of the SC-STS website launched today. The Committee also recently issued a letter to its members outlining support for adherence to the upcoming ISDA IBOR Fallback Protocol.^{4,5} For further queries, please email the SC-STS Secretariat at SORTransition@abs.org.sg or call +65 6224 4300.

⁴ See SC-STS Chair's [letter](#) to SC-STS and ABS member banks on Adherence to the ISDA IBOR Fallback Protocol.

⁵ See ISDA's [website](#) for more information on the Protocol.

Note to Editors:

The Association of Banks in Singapore (ABS)

ABS is a non-profit organisation that represents the interests of the banking community in Singapore. In doing so, ABS works closely with the relevant government authorities towards the development of a sound financial system in Singapore. Since its establishment in 1973, ABS has promoted a unifying voice on banking issues. It has brought its members closer together through various guidelines and banking practices as well as the support of projects of mutual benefit to face the challenges of the financial and banking community in Singapore. Today ABS has a membership of 155 local and foreign banks.

ABS Benchmarks Administration Co. Pte Ltd (ABS Co) is an independent locally incorporated company fully owned by the Association of Banks in Singapore. It was established in June 2013 specifically to own and administer the ABS Benchmarks in Singapore - the Singapore Interbank Offered Rate (SIBOR), the Swap Offer Rate (SOR), the SGD Spot FX and the THB Spot FX. ABS Co will also administer Fallback Rate (SOR).

More information on ABS is available at www.abs.org.sg.

Steering Committee for SOR Transition to SORA (SC-STTS)

The SC-STTS was established by the Monetary Authority of Singapore to oversee the industry-wide interest rate benchmark transition from SOR to SORA. Comprising senior representatives from key banks in Singapore, relevant industry associations, and MAS, the Committee is responsible for providing strategic direction on industry proposals to develop new products and markets based on SORA. The Committee is also engaging with stakeholders to seek feedback and raise awareness on issues related to the transition from SOR to SORA.