

# **SORA Transition for Derivatives & Corporate Loans: Briefing for Banks with Corporate Customers**

09 June 2021, 02:00pm to 04:00pm Singapore Time



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# Programme

- **Overview on SORA Transition**

**Bernard Wee**

*Assistant Managing Director, Markets and Investment  
Monetary Authority of Singapore*

- **SORA Market Development and Recommendations on Transition of Legacy SOR Derivatives**

**Daniel Koh**

*Global Head, Treasury Markets  
Standard Chartered Bank*

- **Recommendations on Transition of Legacy SOR Loans**

**Philip Fernandez**

*Corporate Treasurer & Group Management Committee  
DBS Bank*

- **Customer Communications Approach**

**Nicolette Rappa**

*Managing Director, Group Strategic Communications and Brand  
United Overseas Bank Ltd*

- **Panel Q&A**

**Moderated by:**

**Jonathan Phua,**

*Representative of SC-STs Sub-Group on  
Business/Syndicated Loans and  
Director, Group IBOR Transition Programme,  
DBS Bank*

**Panellists:**

***Chairs and Representatives of the SC-STs Sub-Groups on:***

*Derivatives;*

*Business/Syndicated Loans;*

*Legal;*

*Communications and Public Education;*

*Accounting and Tax; and*

***SC-STs Secretariat from MAS***



# Overview on SORA Transition

**Bernard Wee**

Assistant Managing Director, Markets and Investment  
Monetary Authority of Singapore



# Recap on Steering Committee's Work



## Timelines

- SOR will be discontinued by mid-2023 alongside the key tenors of USD LIBOR which it uses in its computation
- SORA was identified as the most robust and suitable alternative benchmark to replace SOR in 2019 following public consultation by ABS-SFEMC
- With LIBOR coming to an end, broad supported for transition from SIBOR to SORA as well, and for SIBOR to be discontinued by end-2024



## Progress

- Established market conventions for new SORA financial products
- Extended central clearing to 21 years
- MAS facilitated SORA auctions to support price discovery, and issuance of MAS SORA FRNs to create flows
- SORA derivatives liquidity continues to rise albeit from a low base; growing adoption of SORA across a range of cash market products, which is expected to accelerate in coming months



## What's next?

- Stop entering into new SOR contracts, and start winding down legacy book
- Forthcoming SC-STS market guidance document aimed to be published in July
- Today's briefing is aimed to facilitate banks' internal preparations to engage customers once the SC-STS guidance document is published



# Three Top-line Questions



## 1. Why the urgency if SOR is only ending in June 2023?

- Liquidity shift may not be linear - SOR liquidity has started to decline, and at some point the shift from SOR to SORA will accelerate
- Best period to transition is most likely 6 to 12 months from now when SOR-SORA basis swaps serve as robust price reference to transition



## 2. Why can't we rely on Fallback Rate (SOR) to transition?

- Unlike other IBOR fallbacks, Fallback Rate (SOR) does not shift your contract to reference SORA
- Fallback Rate (SOR) is intended to be a safety net to prevent disruption to SOR contracts, but was never designed to be a tool to transition to SORA.
- Some basis risks with existing SOR, and there's no market to get out of that risk



## 3. Is SIBOR a feasible alternative to shift to?

- No, SIBOR will also be phased out eventually
- Like other IBORs, SIBOR is not sustainable given the structural decline in its underlying markets as banks' funding models evolved post Global Financial Crisis.
- Transiting from SOR to SIBOR would just be delaying the inevitable.

# SORA Market Development and Recommendations on Transition of Legacy SOR Derivatives

**Daniel Koh**  
Global Head, Treasury Markets  
Standard Chartered Bank



# SOR to SORA Transition in SGD Derivatives

## SOR to SORA Transition

- Late 2018: Association of Banks in Singapore and the Singapore Foreign Exchange Market Committee (ABS-SFEMC) commenced discussions on the transition approach for SGD Swap Offer Rate (SOR) in SGD derivatives.
- Aug 2019: ABS-SFEMC issued a consultation report that identified SORA as the alternative interest rate benchmark to SOR and set out a roadmap for this transition for SGD derivatives and cash market products<sup>1</sup>.  
To support the transition efforts, Monetary Authority of Singapore (MAS) set up an industry-led Steering Committee for SOR Transition to SORA (SC-STs)<sup>2</sup> to provide strategic direction on new products and markets development for SORA.

## Subgroup 1: Derivatives

The derivatives product subgroup was formed alongside SC-STs in Aug 2019 to (1) facilitate up-take of SORA-derivatives, including development of necessary market infrastructure and (2) oversee transition of legacy SOR contracts.

- Consists of banks, buy-side participants and industry stakeholders – LCH, International Swaps and Derivatives Association (ISDA), Singapore Money Brokers Association (SMBA), etc.
- All 14 banks have been actively trading SORA derivatives and participating in the MAS SORA auction to support price discovery, with most banks quoting 2-way in the market.
- All members are committed to the development of SORA market liquidity with active participation and support for industry wide initiatives – compression and conversion cycles, clearing go-live, etc.

<sup>1</sup> [ABS-SFEMC Public Consultation on Roadmap for Transition of Interest Rate Benchmarks: From SOR to SORA \(30 August 2019\)](#)

<sup>2</sup> SC-STs was renamed to the Steering Committee for SOR & SIBOR Transition to SORA (SC-STs) in Dec 2020 due to the expansion in committee's mandate to include the SIBOR-to-SORA transition.



# Development of SORA Derivatives



## Market Guidance

Contract templates<sup>3</sup> for SORA derivatives were published on the [SC-STS website](#) in Feb 2020, followed by a SORA market compendium<sup>4</sup> for derivatives and cash markets in Oct 2020.



## Infrastructure Readiness

- SORA Pricing Availability – Pricings have been published on vendor platforms (Bloomberg, Refinitiv, etc.) since mid-2020.
- Central Clearing – LCH went live with SORA derivatives clearing (up to 5.5Y) in May 2020 and subsequently extended clearing eligibility to 21Y in Feb 2021.



## Trading

Trading of SORA derivatives commenced in Nov 2019. The average bid-ask spreads of SORA OIS and SOR-SORA basis had tightened significantly since mid-2020, following the launch of central clearing and MAS SORA Auction.



## SORA as Primary Reference

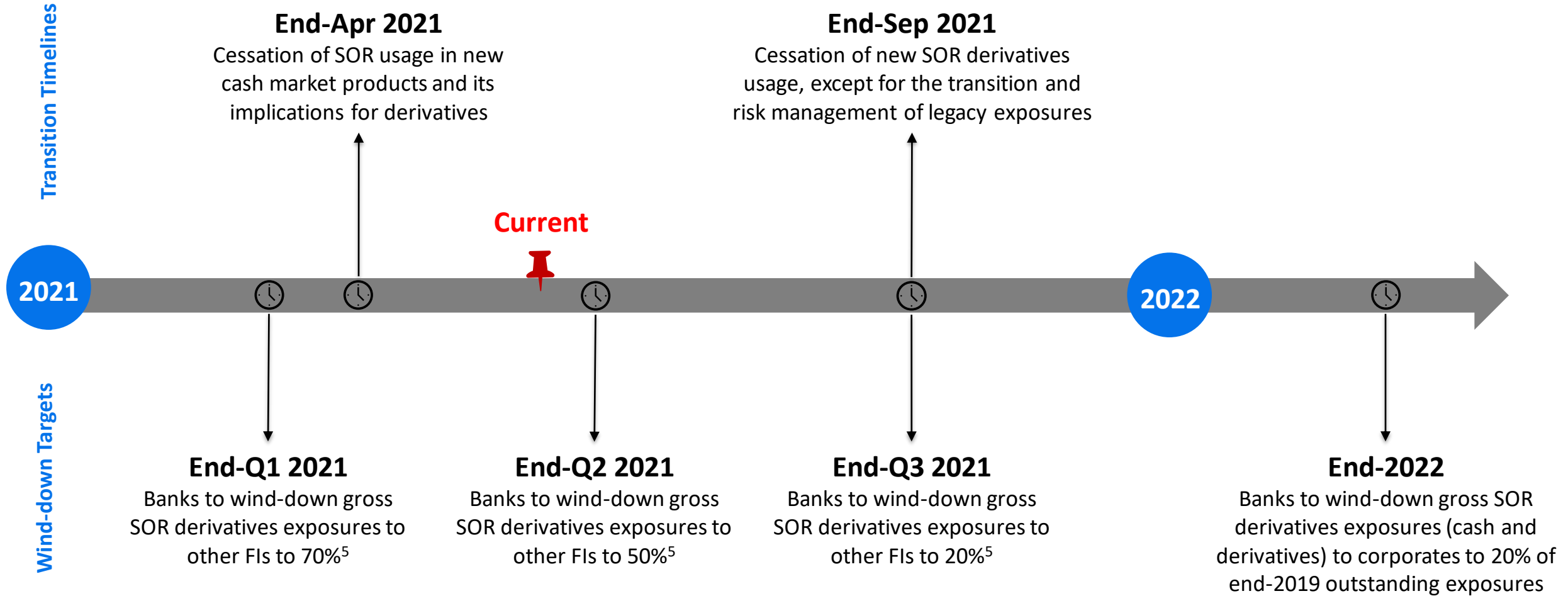
Broker community to consider the switch to SORA as the base curve on broker pages in Q3 2021 (where SORA will be the default pricing for SGD interest rate derivatives) ahead of SC-STS timeline to cease new usage of SOR derivatives after end-Sep 2021, except for the transition and risk management of legacy exposures.

<sup>3</sup> [SORA Contract Templates \(20 Feb 2020\)](#) – SGD SORA OIS, SGD SORA USD SOFR CCS, SGD SORA USD SOFR CCS (Interdealer with MTM reset) and SGD SORA SGD SOR basis swap.

<sup>4</sup> [SORA Market Compendium: Transition from SOR to SORA \(27 Oct 2020\)](#)



# Key SC-STS Timelines and Targets



<sup>5</sup> Relative to end-2019 outstanding SOR derivatives exposures



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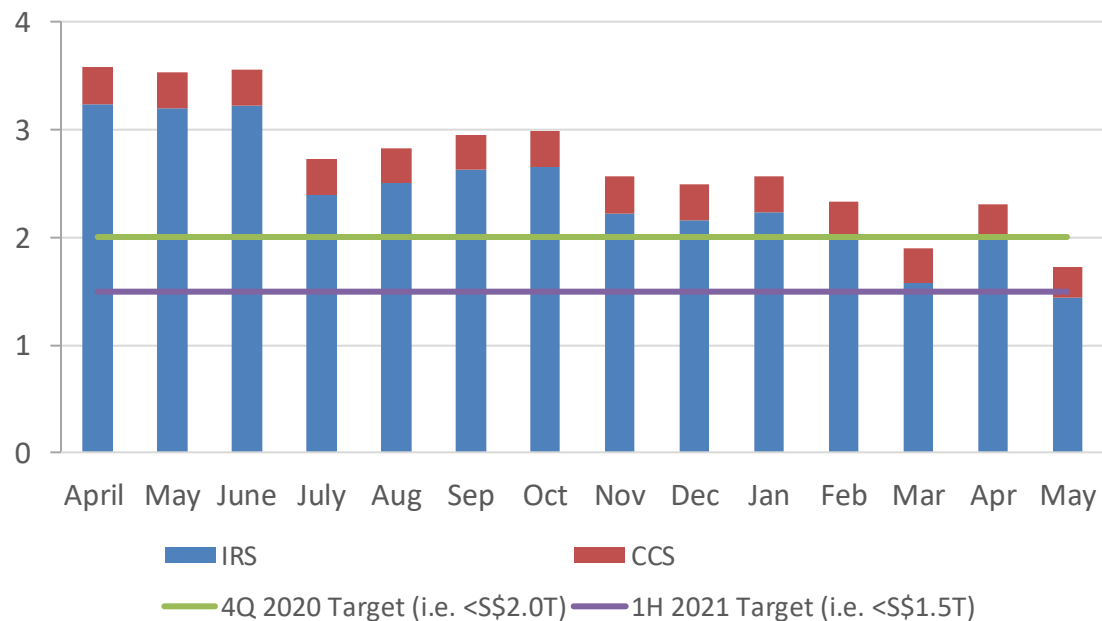
This presentation is strictly private and confidential. It is designed for update and information purposes. It is also incomplete without the accompanying oral briefing. The presentation is not designed to provide any specialist advice and shall not be used for such purposes.

Source: [SC-STS Transition Roadmap 2021/2022](#)

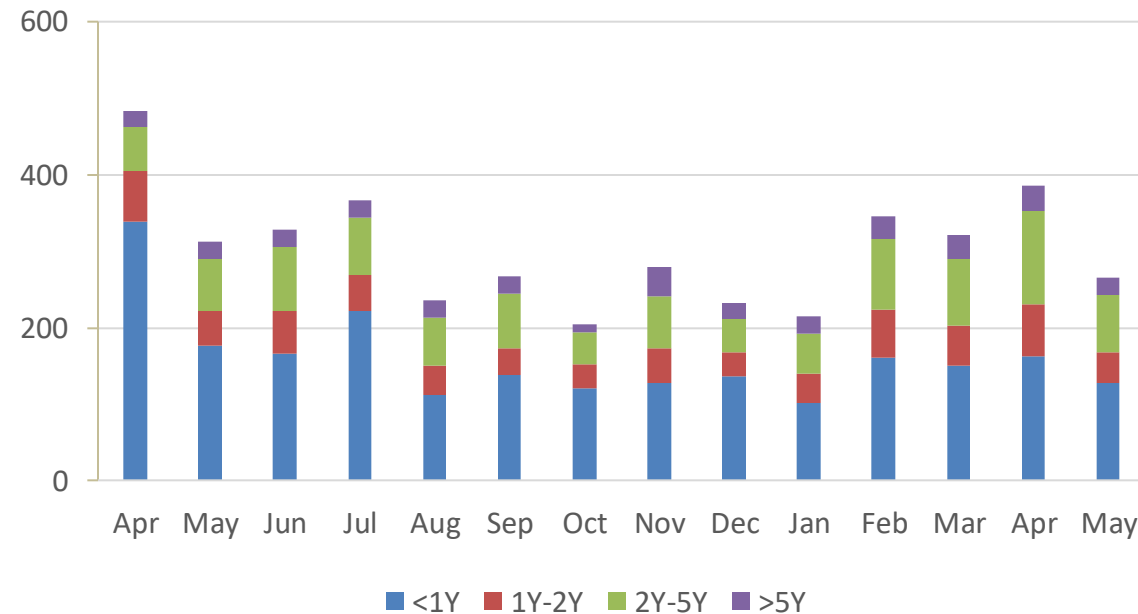
# Wind-down of SOR Derivatives

Wind-down of outstanding SOR derivatives exposures remains broadly on track in 2H 2021

### Gross notionals of outstanding SOR trades (\$\$tn)



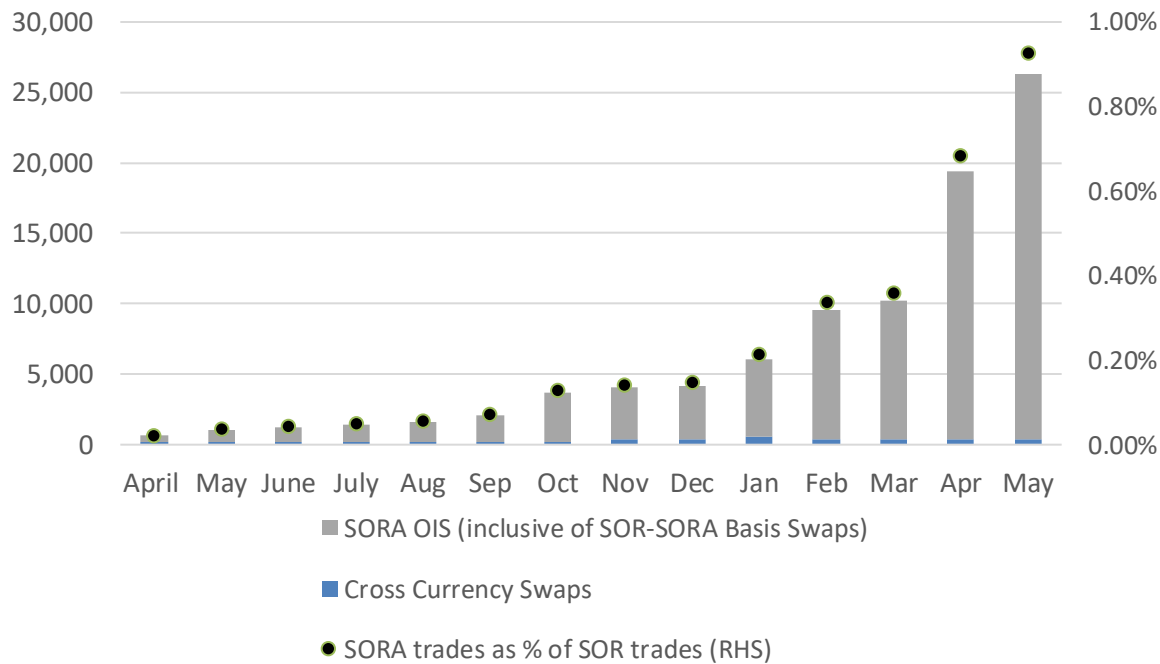
### New SOR originations (\$\$bn)



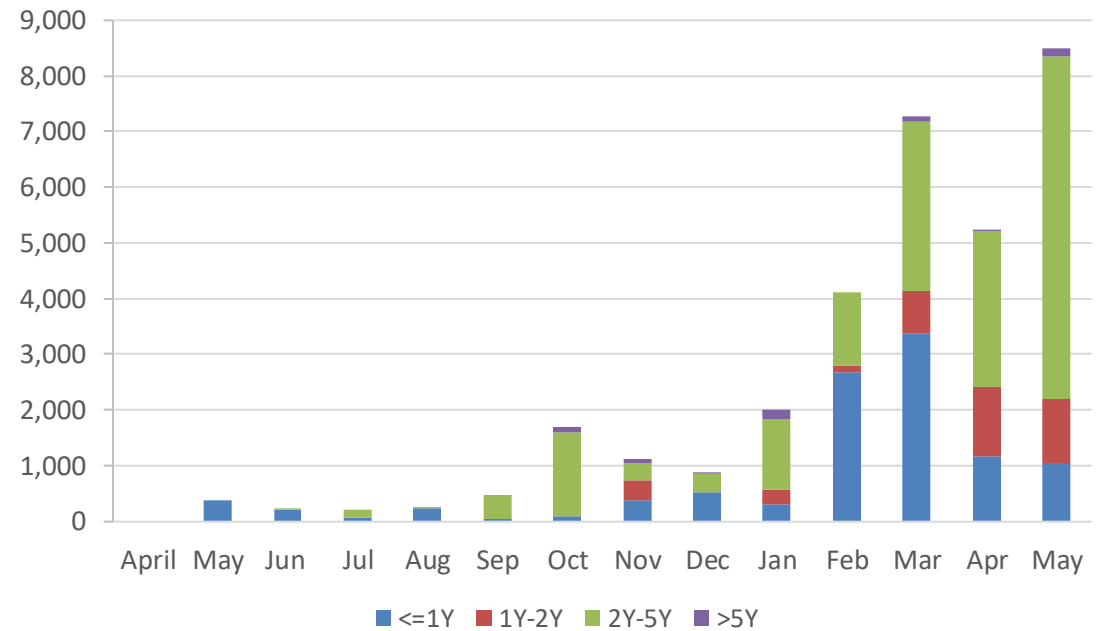
# Development of SORA Derivatives

Increasing trend of SORA derivatives turnover since H2 2020

### Gross Notionals of SORA trades (\$m)



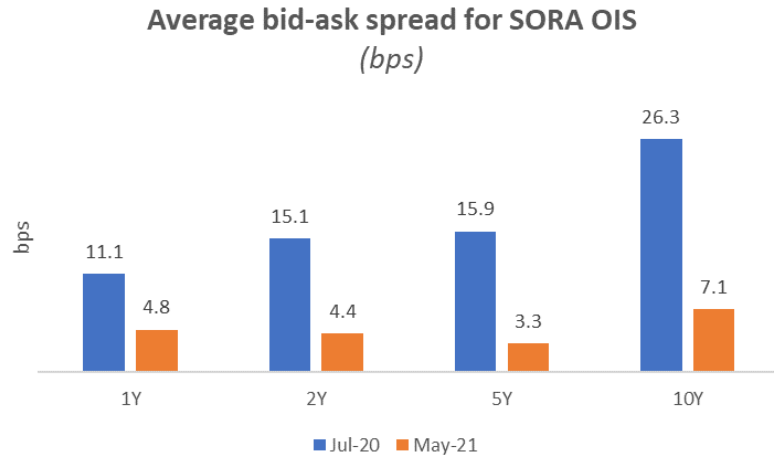
### New SORA originations (\$m)



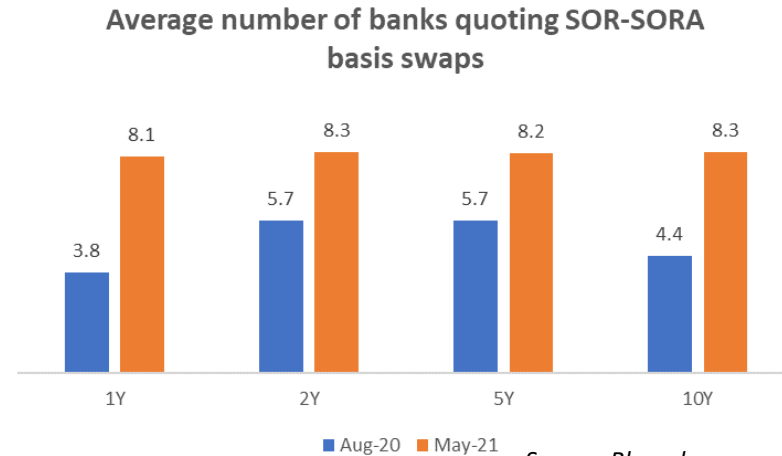
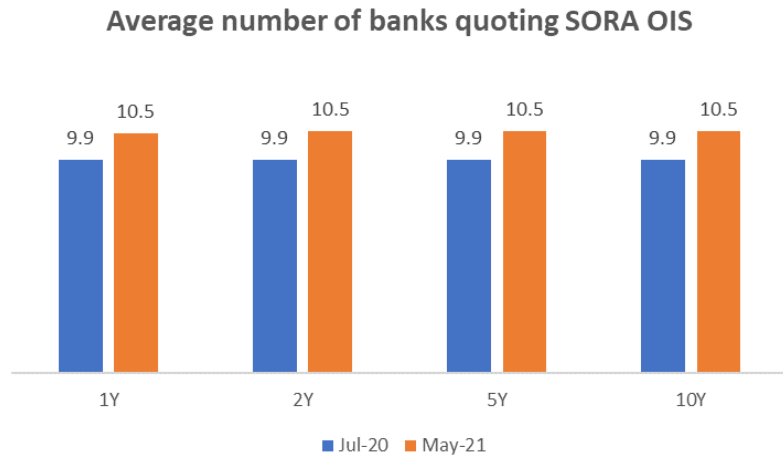
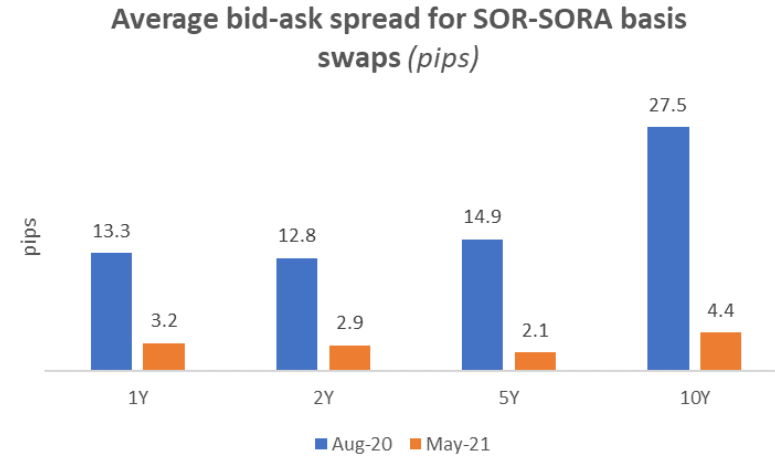
# Development of SORA Derivatives

## Average bid-ask spreads of SORA OIS and SOR-SORA Basis Swaps

### SORA OIS



### SOR-SORA Basis Swaps

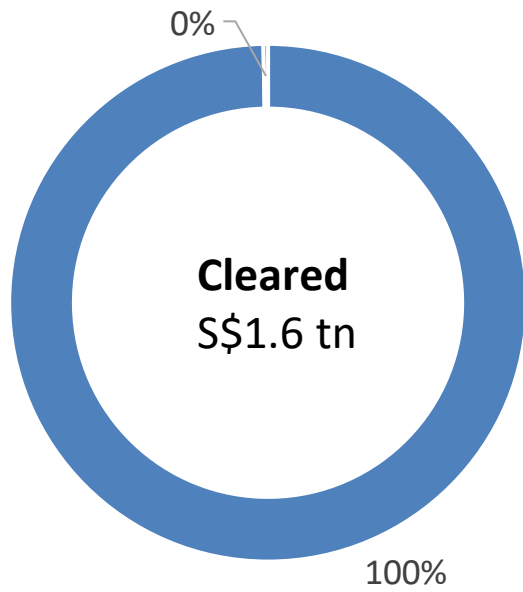


Source: Bloomberg

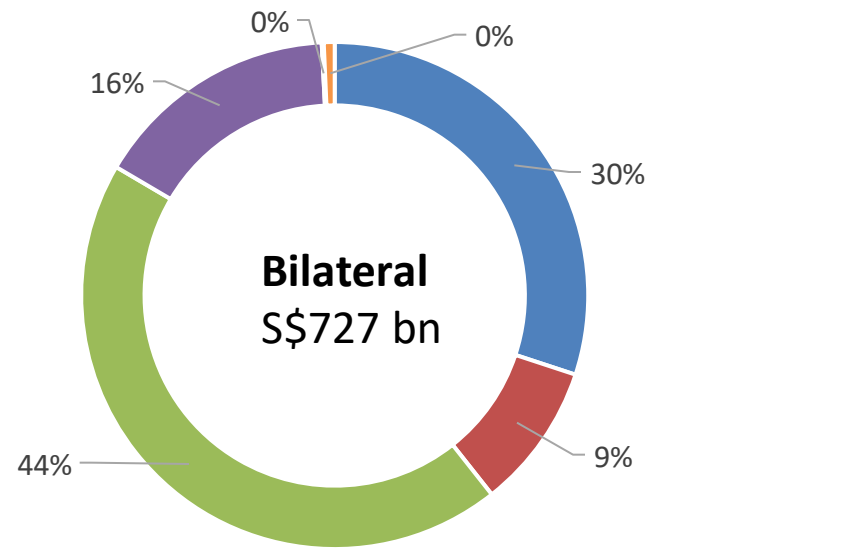
# Outstanding SOR Derivatives

## Outstanding stock of cleared and bilateral SOR derivatives to be transitioned

Stock of cleared and bilateral SGD derivatives as of end-April 2021 [Source: DTCC, MAS estimates]



■ IRS ■ IRS Basis



■ Interbank CCS ■ Non-interbank CCS ■ Interbank IRS  
 ■ Non-interbank IRS ■ Interbank IRS Basis ■ Non-interbank IRS Basis



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# Key Recommendations on Transition of Legacy SOR Derivatives – Cleared Exposures

## 1a) Participate in industry wide compression and conversion cycles provided by vendors

### Good progress in Compression / Conversion cycles

- **Compression cycles**
  - A total of ~S\$1.2 trillion cleared SOR derivatives was terminated during the LCH SGD compression cycles in 1H 2021. There was an average of 20 to 35 participants in each cycle and this translated to an achievement of 40-60% termination ratio (of the trades submitted).
  - The high termination ratio across the cycles was attributed to the high level of engagement from all participants, including first-timers in SGD compression, and relaxation of constraints by many firms.
- **Conversion: Within and between cycles**
  - Vendor/s to start offering SGD conversion capability shortly, providing the option for participants to convert cleared SOR IRS to SORA using SOR-SORA basis swaps during compression cycles. A trial run for conversion cycle was completed in May 2021.
  - **Separately, market participants transacting daily in SOR-SORA basis swaps between trade compression cycles, for transition to SORA.**

### Upcoming Compression / Conversion cycles [For Information]

Participate in upcoming cycles to facilitate the wind-down of outstanding SOR derivatives exposures<sup>6</sup>.

2H 2021 Schedule	TriOptima Cycles
End-Jun 2021 (TBC)	LCH SGD Compression <sup>7</sup>
Mid-Sep 2021 (TBC)	LCH SGD Compression <sup>7</sup>

2H 2021 Schedule	Quantile Cycles
10 Jun 2021	LCH SGD Compression

<sup>6</sup> Banks to wind-down gross SOR derivatives exposures to other FIs to 50% by end-Q2 and 20% by end-Q3, as of end-2019 outstanding SOR derivatives exposures

<sup>7</sup> Some of the cycles could include conversion facilities

# Key Recommendations on Transition of Legacy SOR Derivatives – Cleared Exposures

## 1b) Proactive engagement in clearing house management

### Upcoming PAI / Discounting switch

- LCH to implement the PAI / discounting switch from SOR to SORA in Aug 2021, followed by other clearing houses<sup>8</sup> subsequently.

**Where possible, amend the SGD interest rate on cash collateral in banks' bilateral CSAs by end-2021 to simplify risk management arising from the switch at clearing houses.**

### Mandatory conversion of cleared SOR contracts

- For non-USD LIBOR, LCH (and other clearing houses) will be proceeding with a mandatory compensated conversion for all outstanding non-USD LIBOR trades to the relevant compounded RFR before the benchmark cessation on 31 Dec 2021<sup>9</sup>. In addition, LCH intends to charge fallback fees (from 30 Jun) and a conversion fee for those contracts which cannot otherwise be amended and so remain outstanding at the conversion event.
- A similar approach could be adopted by clearing houses for the management of legacy SOR contracts in 2022/23, before SOR discontinuation in mid-2023 or when SOR derivatives become illiquid.
- While the specific approach for conversion into SORA has not yet been confirmed by clearing houses, users to be aware of potential valuation and basis risk (vis-à-vis bilateral contracts) implications.

**Flatten net exposures to cleared SOR derivatives before the mandatory conversion of SOR exposures to SORA.**

<sup>8</sup> As at end-November 2020, the outstanding cleared SOR derivatives cleared by CCPs are as followed – LCH (98.9%), CME (1.0%), SGX (0.2%).

<sup>9</sup> Following an industry consultation in December 2020, LCH had announced on [18 Mar 2021](#) the intention to proceed with a compensated conversion to convert all outstanding LIBOR trades to the relevant compounded RFR by end-2021 – CHF, EUR & JPY LIBOR on 3 Dec 2021 and GBP LIBOR on 17 Dec 2021.

# Key Recommendations on Transition of Legacy SOR Derivatives – Bilateral Exposures

## 2a) Pursue active transition while SOR-SORA basis pricing remains robust

Usage of SOR-SORA basis swaps for transition

**Leverage on the window of opportunity to transition using market-based SOR-SORA basis swaps starting 2H 2021.**

2Q 2021	2H 2021	1H 2022	2H 2022
<b>Pickup in SORA markets</b> Gradual pick-up in SORA derivatives volumes following extension of central clearing from 5.5Y to 21Y in late-Feb and SC-STS timelines shifting new cash market activity from SOR to SORA by end-Apr 2021	<b>Potential 'sweet-spot'</b> Ramp up in SORA volumes and SOR-SORA basis trading as banks strive to meet SC-STS wind-down targets for their SOR derivatives exposures. Compression and conversion cycles remove gross SOR exposures from the system	<b>SOR-SORA liquidity tapers</b> Gradual decline in SOR-SORA basis swap trading activity as residual SOR exposures have been significantly reduced	<b>Limited SOR-SORA liquidity</b> Trickling of SOR-SORA basis swap activity as participants complete their transition to SORA

Active engagement with counterparties

**Agree with counterparty on timing of transition, pricing sources for conversion based on SOR-SORA mid-rates, and contractual amendments.**

- Transit by either (1) terminate existing SOR contracts and replace with new SORA contracts; or (2) amend existing SOR contracts to reference SORA.



# Key Recommendations on Transition of Legacy SOR Derivatives – Bilateral Exposures

## 2b) Explore backloading of bilateral interbank trades for compression

### Backloading of bilateral interbank trades to clearing houses for compression

- S\$321 billion of outstanding gross bilateral interbank SOR IRS exposures as of end-April 2021, majority of which are intra-group.
- Based on SG1 banks' exposures, a significant proportion (99%) of remaining (non-intragroup) exposures can be backloaded to the clearing house for subsequent compression.
  - Most are longer tenor (>11Y) transactions entered into before the extension of SOR IRS clearing to 21Y in Feb 2019
  - Some transactions that were stepped into on behalf of NBFI clients
  - Some transactions with counterparties who were previously not enabled for clearing
- For some banks, valuation differences between cleared and bilateral contracts expected to reduce after LCH switches its PAI discounting to SORA in Aug 2021.

**Backload bilateral interbank SOR IRS trades to clearing houses for compression cycles.**

# Key Recommendations on Transition of Legacy SOR Derivatives – Summary

## Cleared Exposures



### 1a) Participate in industry wide compression and conversion cycles provided by vendors

- Usage of SOR-SORA basis swaps and trade compressions for the transition to SORA.
- Participate in upcoming cycles to facilitate the wind-down of outstanding SOR derivatives exposures.

### 1b) Proactive engagement in clearing house management

- Where possible, amend the SGD interest rate on cash collateral in banks' bilateral CSAs by end-2021 to simplify risk management arising from the switch at clearing houses.
- Flatten net exposures to cleared SOR derivatives before the mandatory conversion of SOR exposures to SORA in 2022/23.

## Bilateral Exposures



### 2a) Pursue active transition while SOR-SORA basis pricing remains robust

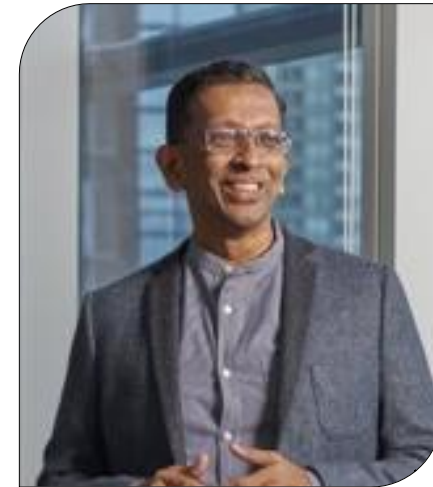
- Leverage on the window of opportunity to transition using market-based SOR-SORA basis swaps starting 2H 2021.
- Agree with counterparty on timing of transition, pricing sources for conversion based on SOR-SORA mid-rates, and contractual amendments.

### 2b) Explore backloading of bilateral interbank trades for compression

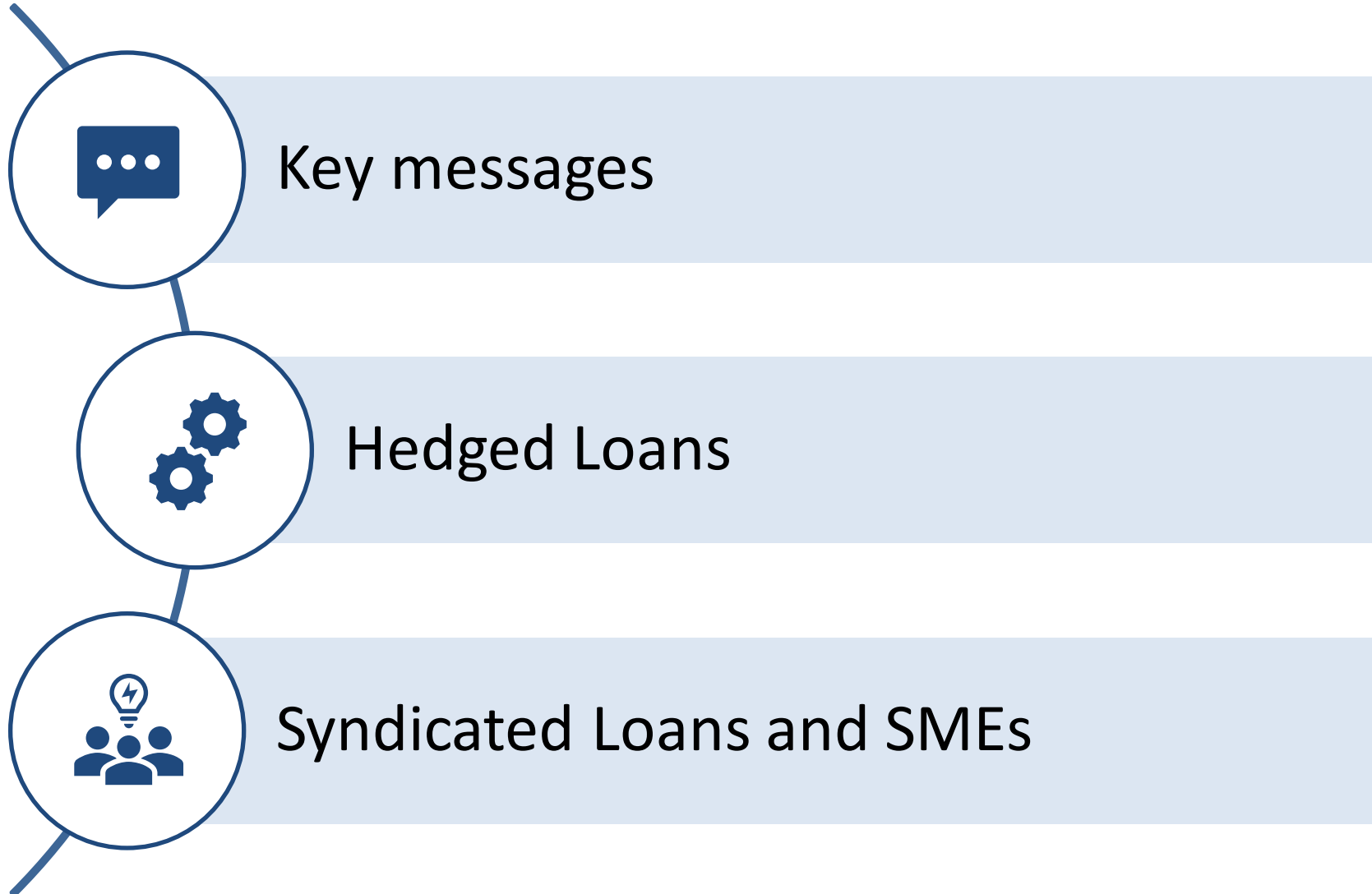
# Recommendations on Transition of Legacy SOR Loans

**Philip Fernandez**

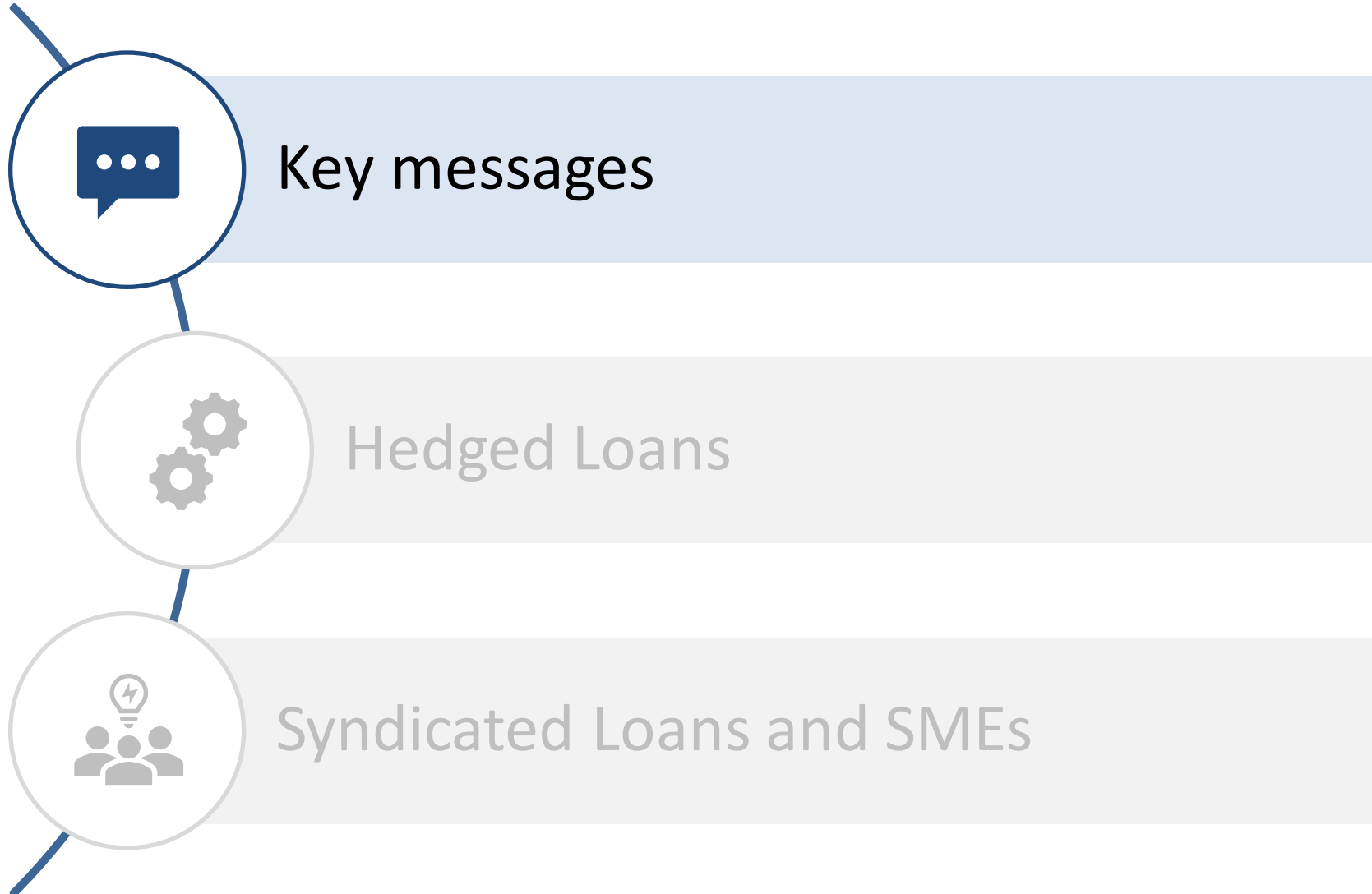
Corporate Treasurer & Group Management Committee  
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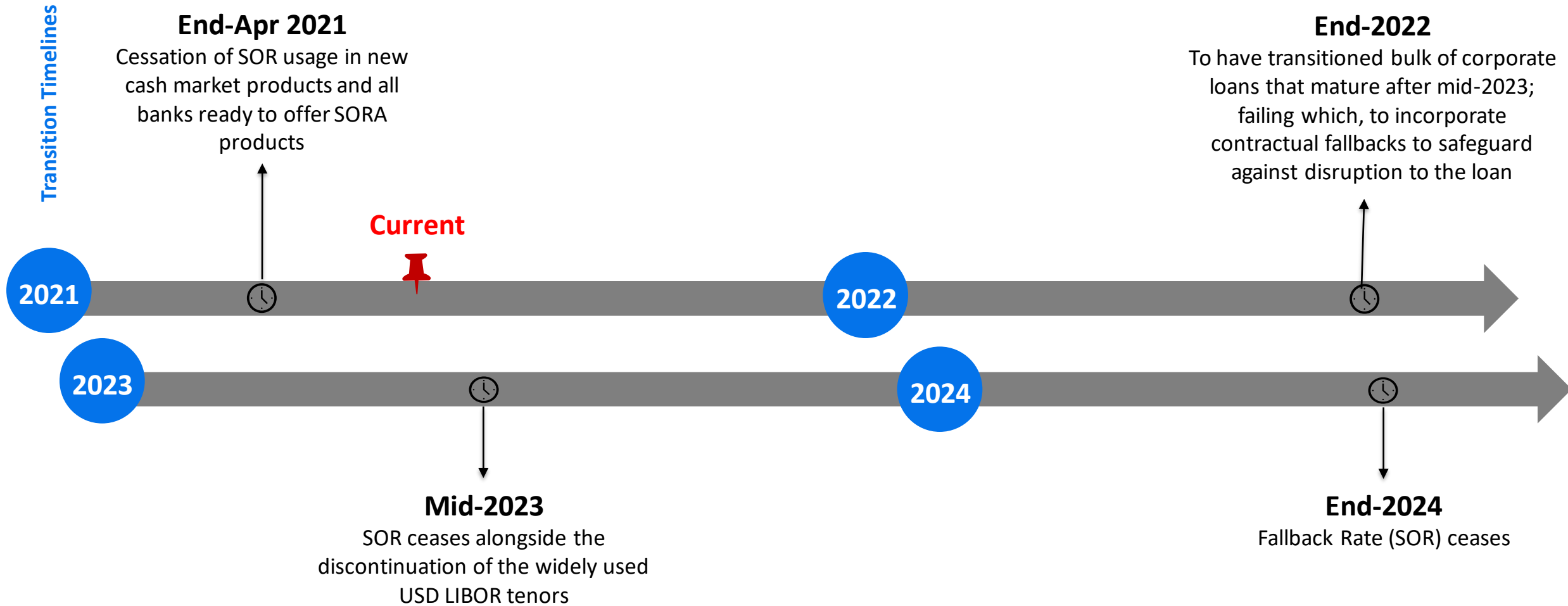
# Agenda



# Agenda



# Recap: SOR will be discontinued by mid-2023; Banks should aim to transition SOR corporate loans as soon as possible



# Bucketing by Maturity Profile

## Maturity

## Recommended approach

Before 30 Jun '23

Allow loan to mature

Between 1 Jul '23 to 31 Dec '24

Transition from SOR to SORA

Otherwise incorporate contractual fallbacks by end-2022 for remaining SOR loans

After 31 Dec '24

Transition from SOR to SORA, avoid reliance on Fallback Rate (SOR) which discontinues end-'24

## Recommendation 1: Banks should use the SOR-SORA basis swap mid-rate to price transitions



**SC-STS recommends banks use the SOR-SORA basis swap mid-rate to price the adjustment spread for transition of legacy SOR corporate loans**

- A basis swap exchanges a stream of SOR payments for SORA plus a spread - this spread is a fair market price, when the market is liquid
- Apply simple average of end-of-day mid-rate over 5 Business Days to smooth volatility



**Main focus is outstanding bilateral or syndicated SOR corporate loans up to 5y tenor**

- May be expanded to loans with more than 5y tenor as liquidity improves for longer dated basis swaps



**Recommendation applies only insofar as the SOR-SORA basis swap market remains liquid and hence a representative pricing reference**



# Key Message: Markets are currently conducive to price transitions from SOR to SORA, but liquidity expected to decline after end-2021



As SORA starts to replace SOR in the swaps market, liquidity has improved, but may not stay that way beyond end-2021


- Banks cannot enter new SOR swaps after end-Sep '21, except to transition and risk manage legacy SOR exposures




As banks stop trading SOR swaps and liquidity shifts to SORA, SOR-SORA basis swaps may see less trading

- While it is difficult to determine exactly how long the window could last, market participants should take action sooner rather than later so that they can rely on market-determined SOR-SORA basis swap pricing

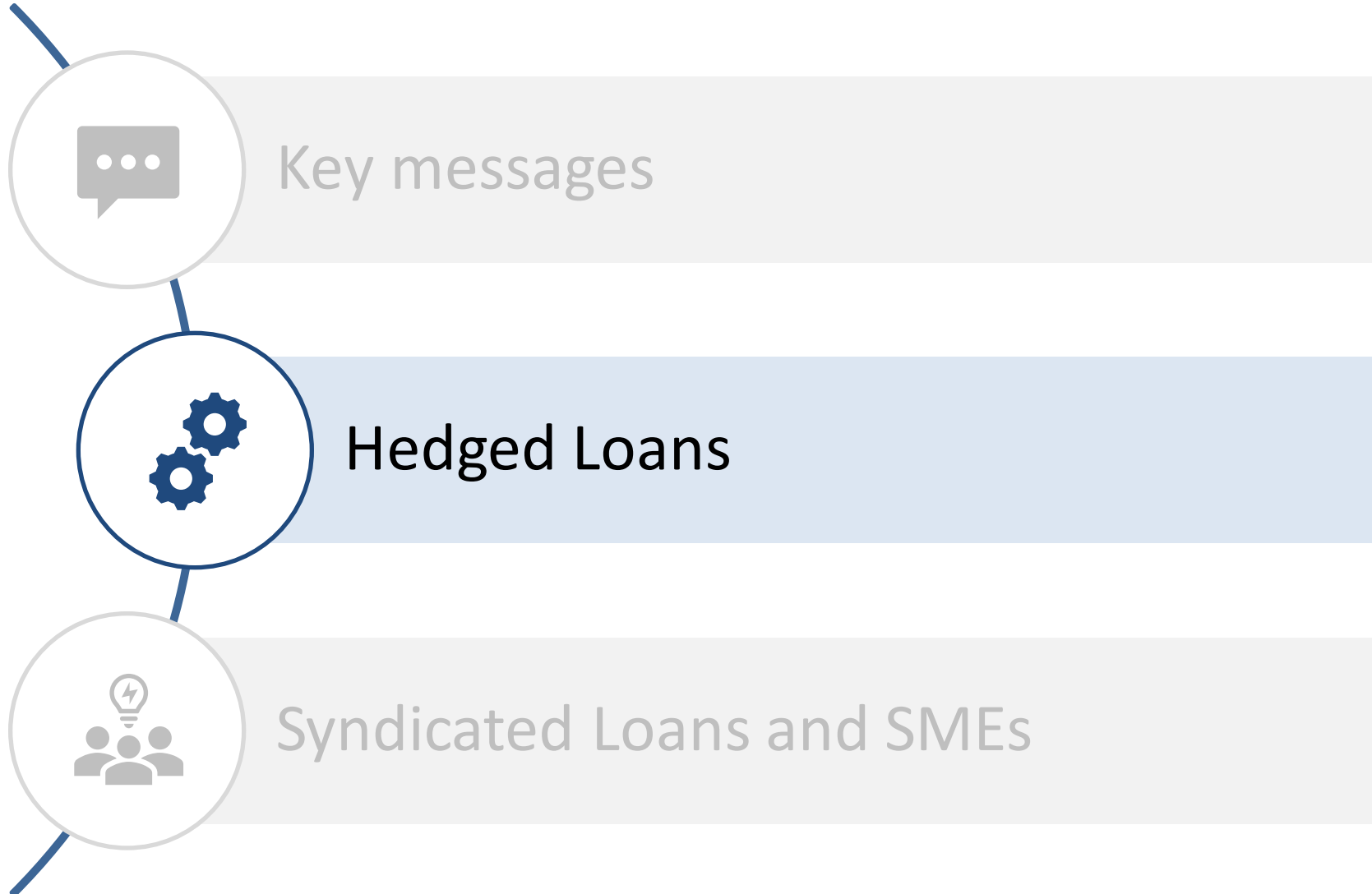
## **Recommendation 2: To rely on SOR-SORA basis swap pricing, banks and corporate borrowers should aim to transition SOR loans to SORA by end-2021 for prudent risk management**

 The window to rely on market-determined SOR-SORA basis swap rates to smoothly transition outstanding SOR loans to SORA could close around 6 to 12 months from now, when SOR markets lose liquidity

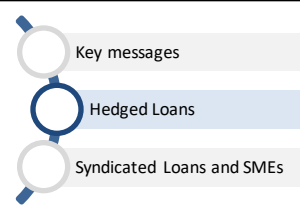
 Without market-determined pricing references, adjustment spread negotiations will likely become less transparent and more tedious

 Although mid-2023 seems far away, to smooth transition, SC-STS encourages banks to engage corporate borrowers early to transition SOR loans to SORA in 2021


# Agenda




## Recommendation 3: Borrowers with hedged loans may want to transition both loan and swap to the same interest rate on the same date, to maximize hedge effectiveness

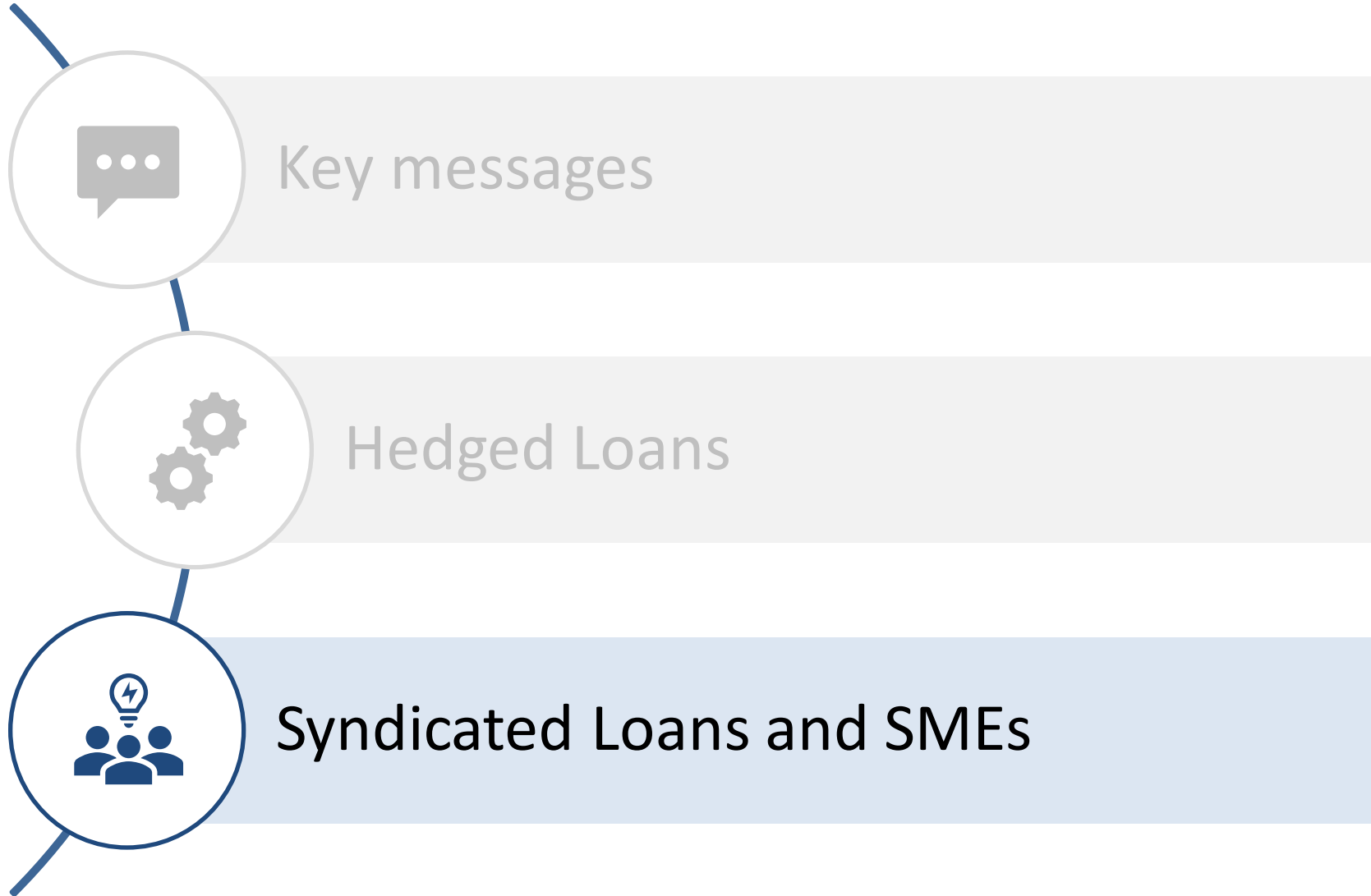


 SC-STS formal guidance on hedged loan transition will be more limited due to the large number of possible permutations




 Customers should consider transitioning both loan and swap on the same date to the same interest rate benchmark to reduce likelihood of hedge ineffectiveness; SOR-SORA basis swap rates could be used to transition both loan and swap to SORA using the same adjustment spread

 As hedge accounting is determined by customer's accounting policy and auditor's judgement, customers may wish to seek independent professional advice

# Agenda



## Recommendation 4: Agent banks should play a coordinating role between lenders and borrowers in transitioning the syndicated SOR loan to SORA

-  Inform syndicate lenders and borrowers of SOR discontinuation and the need to transition to SORA
-  Set out transition options and timelines, as recommended by SC-STS, and engage advisors, such as deal counsel, to make required assessments
-  Facilitate discussions between lenders, borrowers and other parties; lenders and borrowers to make relevant commercial decisions

## Recommendation 5: For SMEs, banks should provide option to transition to compounded-in-advance SORA loans to meet end-customer needs



Banks should assess suitability of SORA for corporate customers based on customer profile



If payment certainty in-advance is a key requirement, Compounded-in-Advance SORA should be one of the transition options provided by banks

Similar to approach for retail customers

# Banks should use industry materials published by SC-STs to engage customers

## Industry template letters



**Coming soon**

*Customer Engagement Letter (Jul '21)*



*Primer Letter to Corporates template (May '20)*

## Reference for Corporates



*SORA - A guide for Corporates and SMEs (Nov '20)*



*SOR Transition to SORA FAQs for Corporates (Jan '21)*

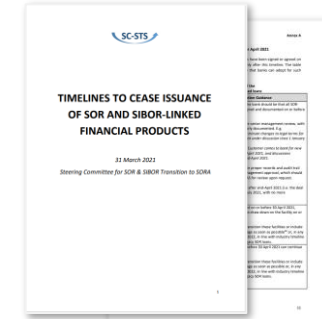


*SC-STs End-user Checklist on Benchmark Transition (Oct '20)*

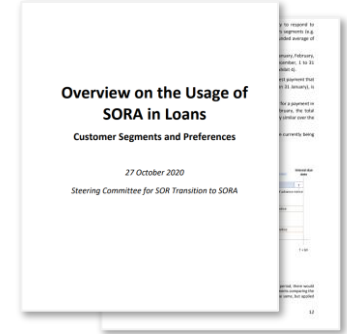
## Technical documents



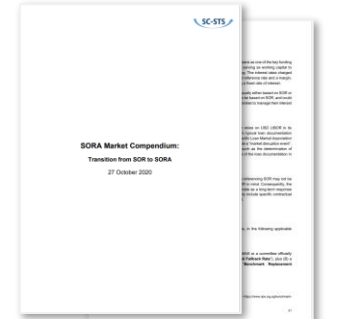
*SC-STs Guidance for Legacy Transition (Est. Jul '21)*



*Timelines to cease issuance of SOR and SIBOR-linked Financial Products (Mar '21)*



*Overview on the usage of SORA in Loans (Oct '20)*



*SORA Market Compendium on the transition from SOR to SORA (Oct '20)*



# Customer Communications Approach

**Nicolette Rappa**

Managing Director, Group Strategic Communications and Brand  
United Overseas Bank Ltd



# Outline: Communications Approach

## Corporate Customer – What has been done

2020

2021

Industry

Oct

[SORA Market Compendium on the Transition from SOR to SORA](#)



Jan

[SOR Transition to SORA FAQs for Corporates](#)



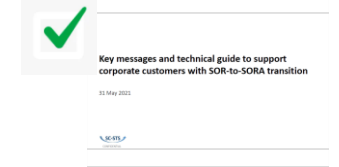
Mar

[Timelines to Cease Issuance of SOR Derivatives and SIBOR-Linked Financial Products](#)



Jun

*Key messages and technical guide to support corporate customers with SOR-to-SORA transition*



Corporate Customer

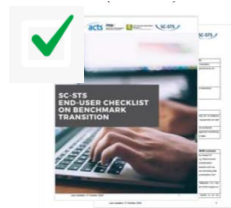
May

Primer letter to Corporates



Oct

[SC-STX End-User Checklist on Benchmark Transition](#)



Nov

[SORA – A guide for Corporates and SMEs](#)



# Outline: Communications Approach

## Corporate Customer – What to expect

2021

Industry

July

*Guidance on legacy transition*



From August

Webinars/  
masterclasses  
with various  
industry  
associations

Corporate  
Customer

June

Customer engagement  
letter and accompanying  
infographic/factsheet



July

FAQs to support  
banks' customer  
engagement



# Outline: Communications Approach

## Public education – What to expect

**2021**

**Late Aug – late Nov**

**Public  
education**

- 1<sup>st</sup> burst of public education campaign
- Ads to promote awareness of the transition to SORA

**2022**

**2Q 2022**

- 2<sup>nd</sup> burst of public education campaign
- Remind customers of the need to make the switch

# Panel Q&A

## Moderated by:



**Jonathan Phua**

*Director, Group IBOR Transition  
Programme  
DBS Bank*

## Panellists:

### SC-STS Secretariat



**Bernard Wee**

*Assistant Managing Director,  
Markets and Investment  
Monetary Authority of Singapore*

### Sub-Group 1: Derivatives



**Daniel Koh**

*Global Head, Treasury Markets  
Standard Chartered Bank*

### Sub-Group 3: Business/Syndicated Loans



**Philip Fernandez**

*Corporate Treasurer & Group  
Management Committee  
DBS Bank*

### Sub-Group 5: Legal



**Lam Chee Kin**

*Managing Director, Head, Group  
Legal, Compliance & Secretariat  
DBS Bank*

### Sub-Group 5: Legal



**Joyce Lai**

*Executive Director, Head of Legal  
and Compliance, Treasury & Markets  
DBS Bank*

### Sub-Group 6: Communications and Public Education



**Nicolette Rappa**

*Managing Director, Group Strategic  
Communications and Brand  
United Overseas Bank Ltd*

### Sub-Group 7: Accounting and Tax



**Yura Mahindroo**

*Partner, Financial Services  
Assurance  
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# Thank You!

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- For further queries relating to this subject matter, please write to:

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