ISDA Safe, Efficient Markets

Fallback Rate (SOR) Factsheet

Last Updated: 30 September 2020

List of Questions

1: What is a benchmark fallback?

Benchmark fallbacks or fallback reference rates are replacement rates that would apply to derivatives trades referencing a particular benchmark. These would take effect if the relevant benchmark (e.g. USD LIBOR, SGD Swap Offer Rate (SOR) etc.) becomes unavailable while market participants continue to have exposure to that rate. Specific fallback rates are set out in the 2006 ISDA Definitions. ISDA is working on new robust fallbacks that would apply in the event of a permanent cessation of a key interbank offered rate (IBOR) or, in the case of LIBOR, upon a determination that it is no longer representative.

2: Why are changes to the fallbacks in the 2006 ISDA Definitions necessary?

Current fallbacks under the 2006 ISDA Definitions typically require the counterparty that is the calculation agent to obtain quotes from major dealers in the relevant interdealer market. If an IBOR (e.g. USD LIBOR, SOR etc.) has been permanently discontinued, it is likely that major dealers would be unwilling and/or unable to give such quotes. It is also likely that quotes could go vary materially across the market.

More immediately, with respect to LIBOR, the UK Financial Conduct Authority (FCA) has stated that it will not compel or persuade banks to make LIBOR submissions after the end of 2021, raising the likelihood that LIBOR will cease to exist after that date. The cessation of USD LIBOR, which is used in computing SOR, will have implications for SOR publication.

3: What is the benchmark fallback for SOR derivatives?

Fallback Rate (SOR)[1] will be the primary fallback reference rate for SOR derivatives.

Similar to SOR, Fallback Rate (SOR) is an FX-implied rate, based on actual transactions in the USD/SGD FX swap market, and available in the same tenors as SOR (i.e. Overnight, 1-month, 3-month and 6-month). Fallback Rate (SOR) rates will use the fallback for USD LIBOR contracts (i.e. "Fallback Rate (SOFR)" published by Bloomberg Index Services Limited (BISL), which is calculated by compounding USD Secured Overnight Financing Rate (SOFR) and adding the relevant spread adjustment) in place of USD LIBOR rates in their computation. Overnight Fallback Rate (SOR) will use SOFR in place of overnight USD LIBOR in its computation.

Adoption of Fallback Rate (SOR) as the primary fallback reference rate for SOR derivatives followed ISDA's May 2019 consultation, which showed support among market participants for the use of Fallback Rate (SOR), and the Steering Committee for SOR Transition to SORA (SC-STS)'s review on the relative merits of Fallback Rate (SOR) and fallback rates based on the Singapore Overnight Rate Average (SORA). SC-STS noted that Fallback Rate (SOR) is more similar to and correlated with SOR relative to fallback rates based on SORA, and therefore the use of Fallback Rate (SOR) as the fallback reference rate would reduce the risk of value transfer and is expected to receive greater market support.

The calculation methodology for Fallback Rate (SOR) is available here.

4: What is the fallback adjustment for Fallback Rate (SOR)?

Fallback Rate (SOR) uses Fallback Rate (SOFR) as an input in its calculation. Hence as the spread adjustment calculated and published by BISL for Fallback Rate (SOFR) is already factored in Fallback Rate (SOR), there is no further spread adjustment calculated in relation to Fallback Rate (SOR).

For information on the 11 Fallback Rates including Fallback Rate (SOFR) to be published by BISL, please refer to the IBOR Fallback Factsheet published by ISDA, Linklaters and BISL.

5: How can I adopt the Fallback Rate (SOR)?

ISDA will publish the IBOR Fallback Supplement amending the 2006 ISDA Definitions to incorporate the new fallbacks. These changes will automatically apply to cleared and non-cleared derivatives referencing the 2006 ISDA Definitions that are executed on or after the date the supplement comes into effect. The ISDA IBOR Fallback Protocol[2] that will also be published, will enable market participants to choose to incorporate the new fallbacks into their legacy non-cleared derivatives trades with counterparties that also opt to adhere to the Protocol. Parties could also agree to incorporate the new fallbacks by bilaterally amending their legacy non-

[1] "Fallback Rate (SOR)" was referred to as "Adjusted SOR" in the ISDA's supplemental consultation on technical issues related to fallbacks for derivatives contracts that reference USD LIBOR, CDOR, and HIBOR and certain aspects of fallbacks for derivatives referencing SOR published on May 16, 2019 and "Summary of Responses to the ISDA Supplemental Consultation on Spread and Term Adjustments" published on September 18, 2019.

[2] A protocol is a multilateral contractual amendment mechanism that is used to make standard amendments to ISDA documentation among adhering counterparties, providing an efficient way to implement industry standard contractual changes to legacy trades and avoiding the need to bilaterally negotiate the same amendments with each party individually.

cleared contracts. Clearing houses have indicated they will use the powers in their rule books to implement the fallbacks in all of their legacy cleared derivatives transactions as of the effective date of the IBOR Fallback Supplement. In Singapore, the SC-STS has outlined its support for market participants to adhere to the ISDA IBOR Fallback Protocol.

6: Under what circumstances will Fallback Rate (SOR) come into effect?

For derivatives that reference SOR, which relies on USD LIBOR in its computation, the Fallback Rate (SOR) would apply following a permanent cessation of USD LIBOR. In addition, the Fallback Rate (SOR) would also apply as a fallback following a determination by the UK Financial Conduct Authority (FCA) that USD LIBOR is no longer representative of its underlying market, even if it continues to be published.[3] These fallback triggers are aligned with those for USD LIBOR derivatives contracts.

An exception to this triggering of the fallback will apply when a particular tenor of USD LIBOR that has been permanently discontinued or determined to be non-representative can be replaced by a linear interpolation of a shorter USD LIBOR tenor and a longer USD LIBOR tenor that are not non-representative. In such an event, ABS Co will continue to publish SOR based on the interpolated USD LIBOR. Such SOR rates will be accompanied by a footnote on the screens where they are published, to indicate the use of an interpolated USD LIBOR in the computation of an affected SOR rate.

This approach to the use of an interpolated USD LIBOR rate is also aligned to the contractual fallback language in ISDA's IBOR Fallback Supplement and Protocol. This provides that contracts referencing USD LIBOR should reference a rate based on interpolation of a shorter USD LIBOR tenor and a longer USD LIBOR tenor, if a particular tenor of USD LIBOR has been permanently discontinued or becomes non-representative[4].

SOR will be discontinued when such interpolation is no longer possible i.e. when there are no available and representative shorter and/or longer USD LIBOR tenors. In the event, the relevant contractual fallbacks will then apply.

7: Can I use Fallback Rate (SOR) to transition from SOR?

Fallback Rate (SOR) should not be used as a means to transition from SOR.

The SC-STS had identified the Singapore Overnight Rate Average (SORA) as the risk-free-rate to replace SOR, and it is in the interest of financial markets and participants to voluntarily transition to SORA well ahead of end-2021. This would ensure that parties to transactions have good control over the timing and execution of their transition from SOR. The contractual fallback to Fallback Rate (SOR) thus serves mainly to address the risk for contracts that have not been transitioned to SORA despite the best efforts of market participants to do so.

Fallback Rate (SOR) is intended solely as a fallback reference rate, and is not intended for usage in new contracts. Fallback Rate (SOR) will be discontinued after about three years following the fallback trigger, during which time market participants should seek to transition legacy contracts to SORA as soon as possible.

8: Where can I find Fallback Rate (SOR)?

Fallback Rate (SOR) is provided by ABS Benchmarks Administration Co Pte Ltd (ABS Co) and calculated by ABS Co's calculation agent, Refinitiv. Fallback Rate (SOR) is published on Refinitiv screen <FBKSORFIX> from 30 September 2020 and will be made available on Bloomberg screen <ABSI> shortly after the go-live on Refinitiv.

There will be no subscription or licence fees applicable to the use of indicative Fallback Rate (SOR). Nevertheless, ABS Co reserves the right to amend the commercial terms. Users will be able to access Fallback Rate (SOR) on a screen in the same way they access SOR today (although Fallback Rate (SOR) will be available in arrears i.e. towards the end of each interest rate period instead of the beginning).

9: What will be published on the Fallback Rate (SOR) screen?

Users will be able to view:

1. Fallback Rate (SOR) for Overnight, 1-month, 3-month and 6-month tenors – each Fallback Rate (SOR) published will be tagged to a unique Original SOR Rate Record Day[5].
2. USD/SGD Forward Points and Spot Rate for each tenor on the day of the USD/SGD FX swap transactions (i.e. Original SOR Rate Record Day) will also be published.
3. Publication date and "Last Updated" time

Values for Fallback Rate (SOR) are currently calculated on an indicative basis and will continue as such until the time when an Index Cessation Event with respect to a USD LIBOR tenor is triggered and the spread adjustment in the respective Fallback Rate (SOFR) tenor becomes fixed. The current indicative rates are provided on an "what-if" basis i.e. what the fallback rates would be if the Index Cessation Event were to occur on any given day. These indicative rates are not meant to predict what the value of Fallback Rate (SOR) would be if cessation or non-representativeness of USD LIBOR actually occurs and the fallbacks take effect.

[3] For LIBOR, SOR and THBFIX, the fallbacks apply upon the earlier to occur of (i) the permanent discontinuation or (ii) the non-representativeness (as determined by the UK FCA) (a so-called "pre-cessation" trigger) of LIBOR in the relevant currency (based on pre-determined, objective triggers). For SOR and THBFIX the relevant currency is USD LIBOR. The combined permanent discontinuation and pre-cessation trigger is defined as "Index Cessation Event" in the LIBOR Rate Options.

[4] See Section 8.5 (Discontinued Rates Maturities) of the Supplement on Amendments to the 2006 ISDA Definitions to include new IBOR fallbacks.

[5] Fallback Rates (SOR) will be published in arrears for every Original SOR Rate Record Day:

- For every Singapore, London and New York Business Day on which an Overnight SOR would have been published with respect to an Overnight Fallback Rate (SOR); and
- For every Singapore and London Business Day on which a 1-month, 3-month and 6-month SOR would have been published with respect to 1-month, 3-month and 6-month Fallback Rates (SOR).

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10: What time will the Fallback Rate (SOR) be published?

Overnight, 1-month, 3-month and 6-month Fallback Rate (SOR) rates will be published respectively one day and approximately one month, three months, and six months in arrears prior to or at 9.15am New York time (9.15pm/10.15pm Singapore time), following shortly after the SOFR publication by Federal Reserve Bank of New York and BISL's publication of the Fallback Rate (SOFR). Fallback Rate (SOR) will be published on Singapore Business Days.

It is possible for multiple Fallback Rates (SOR) of the same tenor to be published on the same day, with each Fallback Rate (SOR) tagged to a unique Original SOR Rate Record Day. Likewise, there could also be good Singapore Business Days when no Fallback Rate (SOR) will be published.

A Fallback Rate (SOR) publication schedule for Original SOR Rate Record Days, up to one year in advance, is accessible on Refinitiv's platform, following the convention of selecting the two-character tenor identifier (e.g. ON, 1M, 3M or 6M) and numerical month a user wishes to view. For example, the 6-month Fallback Rate (SOR) publication schedule for September 2020 can be accessed using Refinitiv page code <FBKSOR6MACAL9>.

More information on new benchmark fallbacks for derivatives is available on the ISDA website: bit.ly/2y3R47N and the SOR to SORA website: https://abs.org.sg/benchmark-rates/sor-discontinuation-and-contractual-fallbacks