



TIMELINES TO CEASE ISSUANCE OF SOR AND SIBOR-LINKED FINANCIAL PRODUCTS

31 March 2021¹

Steering Committee for SOR & SIBOR Transition to SORA

¹ This document was first published on 31 March 2021 but has been subsequently updated. Key updates have been documented under Revision History on the following page.

REVISION HISTORY

Version	Published date	Summary of Updates
1.0	31 March 2021	Initial draft
1.1	5 August 2021	<ul style="list-style-type: none"> • Added further clarification on the wind-down targets of interbank SOR derivatives in footnote 25 • Added further clarification on the wind-down targets for SOR exposures (both cash and derivatives) to corporates in footnote 26 • Updated Annex A (“FAQs on Ceasing New SOR-linked Loans after April 2021”) • Added new Annex C (“FAQs on Ceasing New SIBOR-linked Loans after September 2021”) <p>Key changes are marked in purple.</p>
1.2	18 July 2022	<ul style="list-style-type: none"> • Updated paragraph 3.13 on wind-down targets for banks’ SOR exposures to corporates • Added Annex D (“Update to SC-STIS’ Guidance to Banks on the Transition and Contract Remediation Targets for SOR Exposures to Corporates”) • Updated Annex E <p>Key changes are marked in green.</p>

1 Background and Aim

1.1 On 30 August 2019, the Association of Banks in Singapore and the Singapore Foreign Exchange Market Committee (“ABS-SFEMC”) issued a consultation report, which identified the Singapore Overnight Rate Average (“SORA”) as the alternative risk-free rate (“RFR”) to replace the Swap Offer Rate (“SOR”) in SGD interest rate markets.² This recognised that SOR, which relies on USD LIBOR in its computation methodology, would be discontinued when USD LIBOR is discontinued after end-2021. To oversee this industry-wide interest rate benchmark transition from SOR to SORA, the Monetary Authority of Singapore (“MAS”) established the Steering Committee for SOR Transition to SORA (“SC-STSS”)³, to provide strategic direction on industry proposals to develop new products and markets based on SORA, and engage with stakeholders to seek feedback and raise awareness on issues related to the transition from SOR to SORA.⁴

1.2 On 27 October 2020, SC-STSS set out market guidance on Timelines to Cease Issuance of SOR-linked Financial Products.⁵ The industry had made good progress in establishing the market conventions for new SORA-referencing products, implementing contractual fallbacks for SOR-referencing products, as well as promoting take-up of SORA products. With these in place, the SC-STSS set out guidance to support a coordinated shift away from the use of SOR in financial products, and to concurrently accelerate the usage of SORA. The guidance included timelines for market participants to:

- (a) Cease the usage of SOR in new cash market products;
- (b) Be ready to offer SORA-based products in scale to customers;
- (c) Wind down gross exposures in SOR derivatives; and
- (d) Implement fallbacks in cash and derivatives contracts that reference SOR.

1.3 Since then, there have been several significant developments globally and locally with implications for the industry benchmark transition to SORA. These include finalisation of the mid-2023 discontinuation date for the overnight, 1M, 3M, 6M and 12M USD LIBOR tenor settings, as well as the decision to discontinue the Singapore Interbank Offered Rate (“SIBOR”) by end-2024 and shift to a SORA-centered interest rate landscape.

1.4 This document assesses the implications of these developments on SC-STSS’ transition roadmap and timelines. This builds on SC-STSS’ on-going public communications, including the recent ABS-ASIFMA Virtual Event on Singapore IBOR Transition⁶ and SC-STSS media release on Further

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 In December 2020, MAS expanded the mandate of the SC-STSS to enable it to oversee the interest rate benchmark transition from SIBOR to SORA, and renamed the committee the Steering Committee for SOR & SIBOR Transition to SORA, with the acronym SC-STSS retained.

⁴ See MAS Media Release on Establishment of Steering Committee (30 August 2019) <https://www.mas.gov.sg/news/media-releases/2019/mas-sets-up-steering-committee-to-drive-the-interest-rate-benchmark-transition-from-sgd-sor-to-sora>

⁵ See SC-STSS Publication on Timelines to Cease Issuance of SOR-linked Financial Products (27 October 2020) <https://abs.org.sg/docs/library/report-on-setting-market-guidance-on-cessation-of-new-sor-originations-timelines.pdf?sfvrsn=2>

⁶ See Keynote Speech by MAS’ Deputy Managing Director at ABS-ASIFMA Virtual Event on Singapore IBOR Transition (2 February 2021) <https://www.abs.org.sg/docs/library/keynote-speech-by-mas-deputy-managing-director-at-abs-asifma-virtual-event-on-singapore-ibor-transition.pdf>

Measures to Boost SORA Transition⁷, which had provided a preliminary assessment of the implications of a later SOR discontinuation date.

2 Key Developments in December 2020

Consultation on discontinuation of key USD LIBOR tenors in mid-2023

2.1 On 4 December 2020, ICE Benchmark Administration (“IBA”) published a consultation on specific dates for the cessation of all 35 tenor settings of LIBOR in the five currencies – USD, GBP, EUR, JPY, CHF. The consultation closed on 25 January 2021 and IBA issued its consultation response on 5 March 2021⁸. This was accompanied by statements from the UK Financial Conduct Authority (“UK FCA”)⁹ and International Swaps and Derivatives Association (“ISDA”)¹⁰.

2.2 The statements confirmed that all LIBOR settings would either cease to be provided by any administrator or be no longer representative:

- (a) immediately after 31 December 2021, in the case of all GBP, EUR, CHF and JPY settings, and the 1W and 2M USD settings; and
- (b) immediately after 30 June 2023, in the case of the remaining USD settings.

2.3 The UK FCA also provided guidance regarding the potential publication of “synthetic” LIBOR rates, with strict restrictions limiting the use of such rates to tough legacy applications.¹¹ In particular, the UK FCA stated that it would consult in Q2 2021, on using its proposed new powers to require IBA to continue the publication on a “synthetic” basis, the 1M, 3M and 6M GBP LIBOR settings, and for one additional year beyond 31 December 2021, the 1M, 3M and 6M JPY LIBOR settings. The case for requiring the continued publication of the 1M, 3M and 6M USD LIBOR settings on a “synthetic” basis would be considered separately. The UK FCA stressed that any “synthetic” LIBOR would no longer be representative of the underlying market and economic reality that the setting was intended to measure. Hence, “synthetic” LIBOR would not be permitted for use in new contracts and would only be allowed for use in tough legacy contracts. The UK FCA would also consult in Q2 2021 on the types of tough legacy contracts which would be permitted to use “synthetic” LIBOR.

2.4 The UK and US authorities have both also provided clear guidance on limiting the usage of USD LIBOR beyond end-2021. While USD LIBOR would be available till mid-2023, this is to allow more time for the transition of legacy contracts while the use of LIBOR in new contracts should cease as soon as possible. The UK FCA highlighted plans to consult, in 2Q 2021, on legislation to prohibit some

⁷ See SC-STs Media Release on Further Measures to Boost SORA Transition (2 February 2021) <https://www.abs.org.sg/docs/library/media-release-for-sc-sts-transition-roadmap.pdf>

⁸ See IBA’s Feedback Statement on Consultation on Potential Cessation (5 March 2021) https://www.theice.com/publicdocs/ICE_LIBOR_feedback_statement_on_consultation_on_potential_cessation.pdf

⁹ See FCA’s Announcements on the End of LIBOR (5 March 2021) <https://www.fca.org.uk/news/press-releases/announcements-end-libor>

¹⁰ See ISDA’s Statement on UK FCA LIBOR Announcement (5 March 2021) <https://www.isda.org/2021/03/05/isda-statement-on-uk-fca-libor-announcement/>

¹¹ Synthetic LIBOR: A forward looking term rate comprising the relevant term risk-free rate (RFR) plus a fixed adjustment spread aligned with the spreads in ISDA’s IBOR fallbacks.

or all new use of LIBOR after end-2021.¹² Meanwhile, the US authorities had highlighted in their November 2020 communications that entering into new contracts that use USD LIBOR as a reference rate after 31 December 2021 would create safety and soundness risks, and warrant closer examination of bank practices.¹³ The US agencies encouraged banks to cease entering into new contracts that use USD LIBOR as a reference rate as soon as practicable and latest by 31 December 2021. New contracts entered into before 31 December 2021 should either utilise a reference rate other than LIBOR or have robust fallback language.

2.5 The implications of these announcements for SOR transition are as follows:

- (a) SOR, which relies on USD LIBOR in its computation, will similarly be discontinued immediately after 30 June 2023 across all tenor settings.¹⁴ The later discontinuation date will provide additional time for the roll-down of legacy SOR-referencing contracts, and more time for financial institutions to remediate SOR-referencing contracts to a SORA reference.
- (b) A global consensus – in US, UK and elsewhere – is emerging regarding the need to cease usage of soon-to-be discontinued IBOR benchmarks in new contracts as soon as possible. SC-STS has provided similar guidance on ceasing the use of SOR in new cash market contracts after end-April 2021, and will similarly look to provide guidance in regards the use of SOR in new derivatives contracts.

SIBOR Transition

2.6 On 11 December 2020, ABS-SFEMC and SC-STS published a joint industry response to feedback received from the July 2020 consultation on SIBOR Reform and the Future Landscape for SGD Interest Rate Benchmarks.¹⁵ The response paper highlighted:

- (a) Broad public support for the proposal to discontinue SIBOR and shift towards a SORA-centered interest rate benchmark landscape, which would provide more robust and transparent loan market pricing for borrowers, and more efficient risk management for lenders.
- (b) Plans to discontinue all remaining tenors of SIBOR in a few years, starting with the 6M SIBOR likely in 2022, and the 1M and 3M SIBOR by end-2024. Following the March 2021 IBA announcement, which would result in SOR discontinuation only in mid-2023, ABS Co¹⁶ has updated the methodological fallback for 6M SOR to remove reliance on 6M SIBOR to allow 6M SIBOR to be discontinued separately from 6M SOR. With this in place, SC-STS confirmed that 6M SIBOR will be discontinued on 31 March 2022, as originally intended.¹⁷

¹² See FCA's Response to IBA's Proposed Consultation on Intention to Cease USD LIBOR (30 November 2020) <https://www.fca.org.uk/news/statements/fca-response-iba-proposed-consultation-intention-cease-us-dollar-libor>

¹³ See US Authorities' Joint Statement on LIBOR Transition (30 November 2020) <https://www.federalreserve.gov/newsevents/pressreleases/files/bcreg20201130a1.pdf>

¹⁴ Namely the overnight, 1M, 3M and 6M tenor settings

¹⁵ See ABS-SFEMC and SC-STS Joint Response to Feedback on SIBOR Reform and the Future Landscape for SGD Interest Rate Benchmarks (11 December 2020) <https://www.abs.org.sg/docs/library/response-to-feedback-sibor-reform-and-the-future-landscape-for-sgd-interest-rate-benchmarks.pdf>

¹⁶ Refers to ABS Benchmarks Administration Co Pte Ltd, the administrator of SOR and SIBOR benchmarks.

¹⁷ See ABS-SFEMC and SC-STS Media Release outlining intentions to delink 6-month SIBOR discontinuation from 6-month SOR discontinuation if SOR discontinuation is delayed, to allow for 6-month SIBOR discontinuation in 2022 as intended <https://abs.org.sg/docs/library/key-financial-industry-committees-set-out-timelines-for-sibor-discontinuation.pdf>

2.7 The report also highlighted SC-STs' intention to announce a clear timeline to cease the use of SIBOR in new contracts. In setting this timeline, SC-STs would consider the state of readiness of SORA markets – particularly the usage of SORA in retail and small and medium-sized enterprises (“SME”) loan markets where SIBOR is widely used. SC-STs would then provide the market with advance notice of at least six months from the date of announcement to the date of cessation of SIBOR usage in new contracts.

Consultation on Clearing House Rules on Outstanding Contracts upon LIBOR Discontinuation

2.8 On 15 December 2020, LCH – where most SOR derivatives contracts are centrally cleared – consulted market participants on a proposal to automatically convert or replace outstanding LIBOR derivatives contracts with corresponding RFR-referencing contracts, at or before the expected discontinuation of the relevant LIBOR benchmark. This was premised on the clearing house's specific risk management responsibilities, which requires all cleared contracts to remain liquid such that they can be unwound safely in the event of a member default. Other clearing houses (e.g. CME, EUREX for EONIA contracts) have also consulted on a broadly similar approach.

2.9 On 16 February 2021, LCH confirmed its intentions to implement such an approach. Specifically, this would involve terminating and rebooking outstanding LIBOR contracts as corresponding RFR-based contracts at (or before) the discontinuation of the relevant LIBOR benchmark. LIBOR references (e.g. USD LIBOR) would be replaced by the relevant compounded RFR (e.g. compounded SOFR) plus a non-compounded credit spread adjustment in the LIBOR leg of contracts. Cash compensation would be applied to neutralise any small residual valuation difference.¹⁸

2.10 While the consultations applied only to LIBOR derivatives, the clearing house's responsibilities to ensure that cleared contracts must remain liquid and can be unwound safely in the event of a member default would also be relevant to centrally-cleared SOR derivatives contracts. Hence, SC-STs expects that such an approach to converting or replacing centrally-cleared SOR derivatives contracts at or before the expected discontinuation of SOR could similarly be adopted. In particular, as liquidity conditions in the SOR derivatives market could decline by 2022, there is a possibility that such a process of automatic conversion or replacement of SOR contracts could take place well before mid-2023.

2.11 SC-STs therefore strongly recommends that all market participants actively plan for the early transition of SOR derivatives contracts. The smoothest and most efficient transition will be one where contracts that reference SOR are replaced or amended to a SORA reference before SOR discontinuation.¹⁹ This is the only way for market participants to take control of outcomes affecting their respective institution's balance sheet. The major banks in Singapore remain on track to meet SC-STs' targets to reduce their gross exposures to SOR derivatives to 20% by Q3 2021, and other institutions should look to follow suit.²⁰ Where it is not possible to fully exit from gross exposures to

¹⁸ See Summary of LCH's Consultation on its Solution for Outstanding Cleared LIBOR Contracts (16 February 2021) <https://www.lch.com/membership/ltd-membership/ltd-member-updates/summary-lchs-consultation-its-solution-outstanding-0>

¹⁹ See SC-STs' Letter Informing ISDA of SC-STs' Support for the use of Adjusted SOR in the ISDA Fallback Approach (18 August 2020) www.abs.org.sg/docs/library/item-3---sc-sts-letter-to-isda.pdf

²⁰ See SC-STs Publication on Timelines to Cease Issuance of SOR-linked Financial Products (27 October 2020) <https://abs.org.sg/docs/library/report-on-setting-market-guidance-on-cessation-of-new-sor-originations-timelines.pdf?sfvrsn=2>

SOR derivatives, institutions should look to reduce their net risk exposures to centrally cleared SOR derivatives across the entire curve.

Further progress in the development of SORA markets

2.12 The industry continues to make significant progress in the adoption of SORA in financial products, and in SORA market development.

- (a) In the derivatives space, trading volumes continue to rise, with average monthly SORA derivatives turnover increasing almost ten-fold since Q2 2020, albeit from a low base. This has paved the way for LCH to extend central clearing of SORA derivatives from 5.5 years to 21 years in February 2021. This in turn will enable further build-up of liquidity across all tenors of SORA Overnight Index Swaps (“OIS”) and basis swaps between SOR and SORA, and support a broad-based transitioning of the outstanding stock of SOR derivatives to SORA. With the LCH move, MAS has extended the tenors of its daily SORA derivatives auction from 5 years to 20 years. The SORA derivatives auctions facilitate price discovery and help establish robust SORA OIS and SOR-SORA basis curves as pricing references for new SORA products and for transition of legacy SOR contracts to SORA.
- (b) In the cash market, the adoption of SORA across a range of retail and corporate products continues apace.²¹ In keeping with SC-STs’ October 2020 timelines on SORA market readiness, Domestic-Systemically Important Banks (“D-SIBs”) have led the way in introducing SORA-based loan products to the market, including the offering of SORA-based retail home loan packages to a broad base of customers.

3 Implications on SGD Benchmark Transition Timelines

3.1 The implications of recent developments on SC-STs’ guidance on timelines for the SOR and SIBOR transition to SORA are highlighted below.

(a) Stopping new usage of SOR/SIBOR early

3.2 In line with the global direction to cease usage of USD LIBOR in new cash market contracts, **SC-STs remains committed to the earlier announced timelines for shifting new cash market use away from SOR and into SORA.** Specifically:

- (a) By end-April 2021, all financial institutions and their customers should cease usage of SOR in new loans and securities that mature after end-2021. This would avoid further build up in legacy SOR exposures.
- (b) To support this, most D-SIBs have started to offer a full-suite of SORA-based products to their customers from February 2021, while all non-DSIB banks should be ready to offer new SORA-based products by end-April 2021.

3.3 In response to queries from market participants, SC-STs has also set out further implementation guidance on how banks could approach limited situations where SOR loans have been signed or agreed on before end-April 2021, but where disbursements may occur only after end-April

²¹ See Relevant Announcements www.abs.org.sg/benchmark-rates/announcements

2021. SC-STs' further clarifications and implementation guidance for such scenarios is set out in **Annex A**.

3.4 **In addition, SC-STs sees it as necessary that a new timeline be introduced for financial institutions and their customers to cease usage of SOR in new derivatives contracts by end-September 2021.** This addresses the risk, with SOR discontinuation in mid-2023, of continued reliance on SOR derivatives well into 2022, which will increase operational and financial risks for market participants and effectively delay the industry benchmark transition to SORA.

- (a) The end-September 2021 timeline takes into consideration the need to provide market participants with sufficient advance notice to prepare for these changes, and is aligned with SC-STs' targets for banks to wind-down SOR derivatives exposures to 20% by end-September 2021.
- (b) Recognising that market participants would still need to undertake SOR derivatives transactions to risk manage legacy positions and facilitate transition from SOR to SORA, the requirement to cease new transactions will exclude SOR derivatives transactions for risk management of and transition from legacy SOR positions. **Annex B** sets out details of the exemptions.

3.5 **SC-STs further recommends that financial institutions and their customers cease usage of SIBOR in new contracts by end-September 2021.**

- (a) This takes into consideration significant progress in the adoption of SORA loans by retail and SME segments, which are the key users of SIBOR currently. As of March 2021, most major banks have started offering SORA mortgages, and retail take-up has been encouraging with more than S\$1 billion of such loans extended as of end-2020.²²
- (b) SC-STs and ABS will launch a public education campaign in the middle of 2021 to increase public awareness and support wider adoption of retail SORA products.

3.6 The cessation of SIBOR usage in new contracts would help mitigate further build up in the stock of legacy SIBOR contracts, and support the transition towards SORA usage in new financial products in 2021. It is also consistent with the preparation for the discontinuation of the less widely used 6M SIBOR by March 2022, and the widely used 1M and 3M SIBOR benchmarks by end-2024. **Further implementation guidance on how banks could approach limited situations where SIBOR loans have been signed or agreed on before end-September 2021, but where disbursements may occur only after end-September 2021, are set out in Annex C.**

(b) Limiting Usage of Fallback Rate (SOR)

3.7 Fallback Rate (SOR) was designed as only an interim fallback solution for residual contracts which are unable to transition to SORA in time, and was not intended to be used in new contracts. To limit the reliance on Fallback Rate (SOR) and pre-empt any possible bifurcation of the market between SORA and Fallback Rate (SOR), SC-STs announced in September 2020 that Fallback Rate (SOR) would only be published for about three years following the fallback trigger, after which time Fallback Rate (SOR) is expected to be permanently discontinued.²³ Market participants were encouraged to

²² See Business Times report (22 December 2020) <https://www.businesstimes.com.sg/companies-markets/ocbc-extended-more-than-s1b-in-sora-linked-home-loans-since-launch>

²³ See SOR Discontinuation and Contractual Fallbacks www.abs.org.sg/benchmark-rates/sor-discontinuation-and-contractual-fallbacks

transition to SORA where possible, to benefit from the continued ability to hedge via the derivatives markets, and to reduce the operational risks of relying on fallbacks for a large number of contracts.

3.8 With the announcement made by the UK FCA on 5 March 2021, it was confirmed that the cessation date of the overnight, 1M, 3M, 6M and 12M USD LIBOR settings would now be extended to mid-2023. This would consequently result in SOR cessation date being extended to mid-2023 as well. In light of these developments, SC-STS is of the view that retaining a 3-year publication period for Fallback Rate (SOR) could pose some risks for the SOR-to-SORA transition process.

- (a) First, the extension in Fallback Rate (SOR) publication from end-2024 to mid-2026 will yield little benefit in facilitating further roll-off in existing loans – only about 7% of current outstanding syndicated loans and 4% of bilateral business loans would roll off between end-2024 and mid-2026.
- (b) Second, having a prolonged Fallback Rate (SOR) publication will likely lead to transition inertia as counterparties would be inclined to let more contracts roll off instead of actively transitioning to SORA. This traps liquidity that could otherwise have been channelled into the SORA market to contribute to price discovery.
- (c) Third, a prolonged transition journey, whereby Fallback Rate (SOR) contracts would continue to sit on banks' books till 2026 is not ideal. Banks would find these contracts difficult to risk-manage and value due to envisaged poor liquidity in SOR-SORA basis swaps after mid-2022.

3.9 With the extended timeline to transition legacy contracts and additional measures in place²⁴ to facilitate active transition, SC-STS envisages that the majority of legacy contracts will be able to transition out of SOR before it is discontinued. Consequently, the expected use of Fallback Rate (SOR) would be much lower. Given the above considerations, **SC-STS is of the view that a Fallback Rate (SOR) publication period of 3 years is unnecessary, and will retain the original end-2024 end-date for Fallback Rate (SOR)**. This will help to reduce the risk of transition inertia, and channel more liquidity into developing the SORA market.

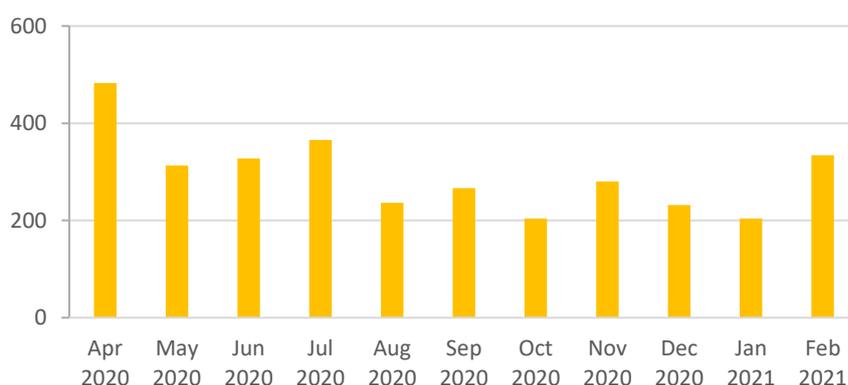
(c) Encouraging Active Transition

3.10 SC-STS strongly encourages market participants to actively transition SOR contracts to SORA as soon as practicable.

- (a) Declining liquidity in the SOR derivatives market will eventually make it more challenging to risk-manage and value large outstanding SOR positions, including for the balancing of SOR derivatives books and the hedging of long-tenor SOR loans or fixed income exposures. SOR derivatives turnover volumes have already declined significantly over the past year (Fig 1), and this trend is expected to accelerate as market participants prepare to exit this market.

²⁴ See SC-STS Media Release on Further Measures to Boost SORA Transition (2 February 2021) www.abs.org.sg/docs/library/media-release-for-sc-sts-transition-roadmap.pdf

Fig. 1: Monthly turnover of SOR derivatives (\$bn)



Source: DTCC, MAS estimates

- (b) Market participants should also be cognisant of the potential for clearing houses to convert SOR derivatives to SORA contracts at adjustment spreads that may differ from their internal valuation of contracts. Market participants are encouraged to significantly reduce gross exposures to SOR derivatives, and eliminate net risk exposures to cleared SOR derivatives across all parts of the curve wherever possible.
- (c) Market participants who do not exit from bilaterally-dealt cash and derivatives contracts maturing after mid-2023 should be prepared to implement operational, accounting and financial procedures to manage contracts referencing Fallback Rate (SOR). For contracts that rely on Fallback Rate (SOR), market participants should also be prepared for the eventuality of Fallback Rate (SOR) discontinuation after around end-2024.

3.11 The optimal window for active transition is likely to occur over a 6-12 month window from mid-2021, when SORA markets would have deepened while SOR derivatives remain relatively liquid. Beyond this window, SOR-to-SORA transactions will become more difficult to execute as liquidity in SOR derivatives tails off.

- (a) This period of active trading out of legacy SOR exposures will create liquidity in SOR-SORA basis swaps, which will provide a useful pricing reference for the transition of legacy cash and derivatives contracts. Thereafter, SOR derivatives liquidity (including in SOR-SORA basis swaps) will likely decline as new hedging activity is expected to follow the cash market to SORA, and as the cessation of new SOR derivatives timeline kicks in.

2Q 2021	2H 2021	1H 2022	2H 2022
Pickup in SORA markets 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	Potential 'sweet-spot' 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	SOR-SORA liquidity tapers Gradual decline in SOR-SORA basis swap trading activity as residual SOR exposures have been significantly reduced, decreasing motivation for SOR-SORA basis trading	Limited SOR-SORA liquidity Trickling of SOR-SORA basis swap activity as participants complete their transition to SORA

3.12 SC-STS reiterates its guidance to all banks to substantially reduce gross exposures to SOR derivatives to 20% by Q3 2021.²⁵ This will apply to banks' derivatives exposures with other financial institutions. Relative to banks' outstanding exposures as at 31 December 2019, this should be reduced to:

- (a) 70% by Q1 2021
- (b) 50% by Q2 2021
- (c) 20% by Q3 2021

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

3.13 SC-STS strongly encourages all market participants to actively explore converting or replacing outstanding SOR cash market contracts with SORA contracts. Taking into account the expected trajectory of the SOR-SORA basis markets, **banks should aim to substantially reduce their SOR exposures (both cash and derivatives) to corporates or mitigate the impact of residual SOR exposures when SOR is discontinued after 30 June 2023. While the SC-STS recognises that the achievement of transition targets is necessarily subject to customers' agreement to amend their contracts, the SC-STS strongly urges banks to ensure reasonable efforts are made by 31 Mar 2023 to either actively transition out of, or to insert appropriate contractual fallbacks²⁶ into, all SOR contracts maturing after 30 June 2023²⁷.** Further details on the 18 July 2022 updates to these guidelines are set out in [Annex D](#).

3.14 A summary of the updated SC-STS Transition Timelines is set out in [Annex E](#).

4 Conclusion

4.1 SC-STS welcomes the positive progress made by the industry in 2020 to develop SORA markets. Additionally, recent announcements by the IBA and UK FCA provide clarity on the end date of USD LIBOR and, consequently SOR. The extension in the USD LIBOR end date in key tenor settings provides an additional time buffer, which will facilitate the transition of legacy contracts as SORA markets continue to develop.

4.2 SC-STS is committed to facilitating early and active transition of SOR markets to SORA, and strongly urges market participants to take active steps to shift away from reliance on SOR in the coming quarters. While SOR may remain available till mid-2023, liquidity in SOR markets has started

²⁵ Relative to the stock of outstanding contracts as at 31 December 2019, as reported by the bank to MAS' May 2020 survey. For avoidance of doubt, the numerator for these targets refers to all SOR derivatives transactions that have yet to mature, including contracts where the last SOR fixing has been fixed.

²⁶ Appropriate contractual fallbacks include:

- (a) Contracts with hardwired fallback language/rate switch mechanism to SORA;
- (b) Contracts that have incorporated the fallback waterfall to Fallback Rate (SOR) after 30 June 2023, followed by MRR, or other applicable fallbacks (as necessary); and
- (c) Contracts that contractually permit fallback to bank's cost of funds (COF), and where customer has expressly agreed that such a fallback to COF is agreeable.

²⁷ SOR contracts maturing on or before 30 June 2023, or whose final interest rate fixing occurs on or before 30 June 2023, are not included as such contracts would not require remediation before maturity.

to decline and this trend will likely continue. Market participants who choose to retain their exposures to SOR will face increasing risk in managing such positions.

4.3 SC-STS hence reiterates its October 2020 guidance, to accelerate operational and system changes, staff training and client outreach, and implement the necessary changes to transition SOR exposures to SORA. The key timelines set out in this document provide a clear and prudent path towards mitigating financial risks from the eventual SOR discontinuation, and ensures continued access to key funding markets beyond end-April 2021, when usage of SOR in new cash market contracts will effectively cease.

FAQs on Ceasing New SOR-linked Loans after April 2021

SC-ST5 is cognisant that there may be limited cases where SOR loans have been signed or agreed on before end-April 2021, but where the monies may be disbursed only after this timeline. The table below provides further guidance on the implementation approach that banks can adopt for such scenarios.

Table 1: FAQs on the implementation of the End-April 2021 timeline for no new SOR-linked loans

Questions	Implementation Guidance
<p>1. Can SOR-linked deals still proceed, where discussions started on or before 30 April 2021, but for logistical/ operational reasons or at the customer's request, signing of deal is delayed till on or after 1 May 2021?</p>	<ul style="list-style-type: none"> • The default position of the bank should be that all SOR-linked deals are to be signed and documented on or before 30 April 2021. • Exceptions would require senior management review, with the reason for delay clearly documented. E.g. <ul style="list-style-type: none"> ○ <i>Acceptable: Last minute changes to legal terms for deal that has been under discussion since 1 January 2021.</i> ○ <i>Not Acceptable: Customer comes to bank for new SOR loan on 28 April 2021, and discussions continue past end-April 2021.</i> • The bank should maintain proper records and audit trail documenting senior management approval, which should be made available to MAS for review upon request. • Hard cut-off is 3 months after end-April 2021 (i.e. the deal must be signed by end-July 2021, with no more exceptions).
<p>2. Can drawdowns be made on or after 1 May 2021, to SOR facilities that are signed on or before 30 April 2021?</p>	<ul style="list-style-type: none"> • If the agreement is signed on or before 30 April 2021, customer can continue to draw down on the facility on or after 1 May 2021. • The bank is to actively transition these facilities or include adequate fallback language as soon as possible²⁸ or, in any case, by end-December 2022, in line with industry timeline for remediation of all legacy SOR loans.
<p>3. Can Building-Under-Construction ("BUC") SOR-linked loans with sequenced disbursements of the loan amount, where the loan was signed on or before 30 April 2021, continue to be disbursed?</p>	<ul style="list-style-type: none"> • BUC loans signed on or before 30 April 2021 can continue to be disbursed. • The bank is to actively transition these facilities or include adequate fallback language as soon as possible or, in any case, by end-December 2022, in line with industry timeline for remediation of all legacy SOR loans.

²⁸ For example, at the next annual review date for the loan.

<p>4. If a SOR loan agreement is signed on or before 30 April 2021, can amendments to the loan be made on or after 1 May 2021 to either increase the amount of the SOR loan and/or bring in more lenders to such SOR loan?</p>	<p><u>Amendments to loan amount</u></p> <ul style="list-style-type: none"> Loans signed on or before 30 April 2021 can be amended for loan amounts if clauses in the original facility agreement already provides for increases in loan amount (i.e. accordion) and if not, only following the same senior management approval process and hard cut-off timeline outlined in scenario (1). <p><u>To bring in new lenders</u></p> <ul style="list-style-type: none"> The bank can bring in new lenders for loans signed on or before 30 April 2021 if transferability clauses were included in the original facility agreement.
<p>5. Under COVID relief programmes, some SOR-based loans may have been granted with discounted pricing (i.e. lower customer spread than market rate). Can these loans be reinstated back to their original terms on a rolling basis in 2021, including possibly after 30 April 2021?</p>	<ul style="list-style-type: none"> Such loans signed on and before 30 April 2021 can be reinstated to original terms, if there are no substantial changes to the economics of the terms in the original facility agreement (i.e. a minor change to an existing SOR loan) Banks are to actively transition these facilities as soon as possible, or include adequate fallback language (even after reinstatement) by end-December 2022, in line with industry timeline for remediation of all legacy SOR loans.
<p>6. Some existing SOR-linked loans may contain extension options which allow the loan to be extended for an additional period (e.g. 1 year) without documenting a new loan.</p> <p>Can such loans be extended beyond 30 April 2021?</p>	<ul style="list-style-type: none"> Loans signed on or before 30 April 2021 based on SOR can be extended, if an extension option is embedded in the contract. If the proposed extension matures on or before 30 June 2023, the extension can be either pegged to SOR, or an alternative benchmark, such as SORA. If the proposed extension matures after 30 June 2023, the extension must be pegged to an alternative benchmark, such as SORA

Exemptions from Timeline to Cease Usage of SOR in New Derivatives

SC-STS recognises that there remains some need to enter into new SOR derivatives contracts to risk manage and unwind existing positions, such as via SOR-SORA basis swaps. However, these circumstances are limited, and it is the responsibility of senior management in financial institutions to ensure responsible use of such exceptions. The transactions and examples of allowable transactions are set out in Table 2 below.

Table 2: Positive Exception List and Examples of Allowable Transactions

Category	Examples of Allowable Transactions
Transactions for risk management and reduction/transition of SOR transactions executed before end-Q3 2021	<u>Risk management</u> <ul style="list-style-type: none"> SOR derivatives for banks' day-to-day risk management and balancing of SOR derivatives books.²⁹ Where possible, SOR-SORA basis swaps to be used for this purpose to help shift risk exposures from SOR to SORA
Market-making in support of client activity related to SOR transactions executed before end-Q3 2021	<ul style="list-style-type: none"> SOR derivatives transactions undertaken to hedge legacy SOR cash market exposures (e.g. SOR loans, FRNs) <u>To support active conversion to SORA</u> <ul style="list-style-type: none"> SOR-SORA basis swaps. However, institutions should not undertake SOR-SORA basis swaps in combination with SORA OIS transactions, with the intent to circumvent the guidance on restricting new SOR derivatives transactions SOR derivatives transactions to close out or reduce a client's existing SOR derivatives position
Novation of SOR derivatives transactions executed before end-Q3 2021	<ul style="list-style-type: none"> Novation of SOR derivatives transactions executed before end-Q3 2021
Transactions executed for required participation in CCP procedures	<ul style="list-style-type: none"> SOR derivatives transactions undertaken at CCP auction procedures, including transactions to hedge the resulting SOR exposure

²⁹ Notwithstanding the need to undertake new SOR derivatives transactions, banks should be prepared to show a steady decline in both their gross outstanding SOR derivatives exposures, as well as volume of new SOR derivatives transactions, after end-September 2021.

(*New*)

FAQs on Ceasing New SIBOR-linked Loans after September 2021

There may be limited cases where SIBOR loans have been signed or agreed on before end-September 2021, but where the monies may be disbursed only after this timeline. The table below provides further guidance on the implementation approach that banks can adopt for such scenarios.

Table 3: FAQs on the implementation of the End-September 2021 timeline for no new SIBOR-linked loans

Questions	Implementation Guidance
<p>1. Can SIBOR-linked deals still proceed, where discussions started on or before 30 April 2021, but for logistical/operational reasons or at the customer's request, signing of deal is delayed till on or after 1 May 2021?</p>	<ul style="list-style-type: none"> • The default position of the bank should be that all SIBOR-linked deals are to be signed and documented on or before 30 September 2021. • Exceptions would require senior management review, with the reason for delay clearly documented. E.g. <ul style="list-style-type: none"> ○ <i>Acceptable: Last minute changes to legal terms for deal that has been under discussion since 1 June 2021.</i> ○ <i>Not Acceptable: Customer comes to bank for new SOR loan on 28 September 2021, and discussions continue past 30 September 2021.</i> • The bank should maintain proper records and audit trail documenting senior management approval, which should be made available to MAS for review upon request. • Hard cut-off is 3 months after end-September 2021 (i.e. the deal must be signed by end-December 2021, with no more exceptions).
<p>2. Can drawdowns be made on or after 1 October 2021, to SIBOR facilities that are signed on or before 30 September 2021?</p>	<ul style="list-style-type: none"> • If the agreement is signed on or before 30 September 2021, customer can continue to draw down on the facility on or after 1 October 2021. • The bank is to actively transition these facilities or include adequate fallback language as soon as possible³⁰ or, in any case, by end-December 2022, in line with industry timeline for remediation of all legacy SIBOR loans³¹.
<p>3. Can Building-Under-Construction ("BUC") SOR-linked loans with sequenced disbursements of the loan amount, where the loan was signed on or before 30</p>	<ul style="list-style-type: none"> • BUC loans signed on or before 30 September 2021 can continue to be disbursed. • The bank is to actively transition these facilities or include adequate fallback language as soon as possible or, in any case,

³⁰ For example, at the next annual review date for the loan.

³¹ For avoidance of doubt, a timeline for the remediation of legacy SIBOR loans has not yet been published. The SC-STs may publish such a timeline in due course.

September 2021, continue to be disbursed?	by any industry timeline set for remediation of all legacy SIBOR loans ³² .
4. If a SIBOR loan agreement is signed on or before 30 September 2021, can amendments to the loan be made on or after 1 September 2021 to either increase the amount of the SIBOR loan and/or bring in more lenders to such SIBOR loan?	<p><u>Amendments to loan amount</u></p> <ul style="list-style-type: none"> Loans signed on or before 30 September 2021 can be amended for loan amounts if clauses in the original facility agreement already provides for increases in loan amount (i.e. accordion) and if not, only following the same senior management approval process and hard cut-off timeline outlined in scenario (1). <p><u>To bring in new lenders</u></p> <ul style="list-style-type: none"> The bank can bring in new lenders for loans signed on or before 30 September 2021 if transferability clauses were included in the original facility agreement.
5. Under COVID relief programmes, some SIBOR-based loans may have been granted with discounted pricing (i.e. lower customer spread than market rate). Can these loans be reinstated back to their original terms on a rolling basis in 2021, including possibly after 30 September 2021?	<ul style="list-style-type: none"> Such loans signed on and before 30 September 2021 can be reinstated to original terms, if there are no substantial changes to the economics of the terms in the original facility agreement (i.e. a minor change to an existing SOR loan) Banks are to actively transition these facilities as soon as possible, or include adequate fallback language (even after reinstatement) by any industry timeline for remediation of all legacy SOR loans³¹.
6. Some existing SIBOR-linked loans may contain extension options which allow the loan to be extended for an additional period (e.g. 1 year) without documenting a new loan. Can such loans be extended beyond 30 September 2021?	<ul style="list-style-type: none"> Loans signed on or before 30 September 2021 based on SIBOR can be extended, if an extension option is embedded in the contract. If the proposed extension matures on or before the relevant SIBOR tenor setting is discontinued, the extension can be either pegged to SIBOR, or an alternative benchmark, such as SORA. If the proposed extension matures after the relevant SIBOR tenor setting is discontinued, the extension must be pegged to an alternative benchmark, such as SORA. For reference, the less widely used 6M SIBOR will be discontinued immediately after 31 March 2022, while 1M and 3M SIBOR will be discontinued immediately after 31 December 2024.

³² For avoidance of doubt, a timeline for the remediation of legacy SIBOR loans has not yet been published. The SC-STs may publish such a timeline in due course.

(*New*)

Update to SC-STS' Guidance to Banks on Transition and Contract Remediation Targets for SOR Exposures to Corporates (Loans and Derivatives)

1 This Annex provides further details to the 18 July 2022 update to SC-STS guidance to banks on transition and contract remediation targets for banks' SOR exposures to corporates (loan and derivatives).

Background

2 In March 2021, SC-STS set a target for banks to substantially reduce their SOR corporate exposures by end-2022. This recommended that banks should aim to substantially reduce their SOR exposures (both cash and derivative) to corporates to 20%³³ by end-2022, relative to the stock of outstanding contracts as at 31 Dec 2019. SC-STS also recommended that all contracts that continue to reference SOR as at end-2022 should minimally incorporate appropriate contractual fallbacks.

3 The targets had two key objectives: (a) to accelerate SORA market development by incentivising direct conversion of legacy SOR exposures to SORA in cash market and derivatives contracts, and (b) emphasise the importance of risk management by minimally incorporating appropriate contractual fallbacks. The targets were also set to mitigate against excessive reliance on Fallback Rate (SOR) mechanism in lieu of active transition, as Fallback Rate (SOR) contracts would be more challenging to risk manage and value.

Motivation for an update to the targets

4 SC-STS has reviewed the continued relevance of these targets in 2022, taking into consideration recent progress in SORA market development and adjustment spreads for the transition of legacy SOR contracts in wholesale markets.

5 First, the objective of supporting SORA adoption in cash and derivatives markets has been largely achieved. Gross exposures to SORA derivatives have risen from less than S\$10bn in March 2021 to over S\$1,136bn by March 2022, overtaking the size of the SOR derivatives market. Meanwhile, gross exposure to SORA loans have risen from less than S\$4bn to over S\$62bn across a broad range of SME, bilateral business and syndicated loans, as well as retail loans.

6 Second, while substantial efforts have and will continue to be placed on encouraging active transition from SOR to SORA, recent developments have mitigated the challenges associated with risk management and valuation of Fallback Rate (SOR) contracts.

- Risks from excessive exposures to Fallback Rate (SOR) have been partially mitigated by the conclusion of SC-STS' public consultation on the MAS Recommended Rate (MRR) on 18 July 2022, which provides increased valuation certainty for contracts that will fallback to Fallback Rate (SOR), and a pathway for eventual transition of these contracts to SORA.
- Notwithstanding SC-STS' view that the smoothest path to transition would still be through active transition of SOR contracts to SORA, the committee also recognises that the

³³ Numerator to the 20% comprised all SOR cash and derivatives exposures to corporates that mature after 30 June 2023, including contracts where fallback language to Fallback Rate (SOR) has been incorporated. Denominator to the 20% comprised all outstanding SOR cash and derivative exposures to corporates as at 31 December 2019, regardless of maturity date.

achievement of transition targets is necessarily subject to customers' agreement to amend their contracts.

7 Given the above, the SC-STC considers it prudent and appropriate for our industry targets to shift towards a sharper focus on risk management and the completion of contract remediation ahead of the discontinuation of SOR after 30 June 2023.

- SC-STC continues to encourage all banks to substantially reduce their SOR exposures (both cash and derivative) to corporates, but will remove the target to reduce such exposures to 20% of the stock as at end-2019³⁴. This gives more flexibility for banks and customers to shift focus to contract remediation where active transition is not practicable.
- **SC-STC strongly urges banks to ensure reasonable efforts are made by 31 Mar 2023 to either actively transition out of, or to insert appropriate contractual fallbacks into, all SOR contracts maturing after 30 June 2023.** The guidance emphasises responsibility of banks while recognising that the achievement of transition targets is necessarily subject to customers' agreement to amend their contracts.

6 To facilitate industry consistency, SC-STC further clarifies that appropriate contractual fallbacks comprises:

- Contracts with hardwired fallback language/rate switch mechanism to SORA;
- Contracts that have incorporated the fallback waterfall to Fallback Rate (SOR) after 30 June 2023, followed by MRR, or other applicable fallbacks (as necessary); and
- Contracts that contractually permit fallback to bank's cost of funds (COF), and where customer has expressly agreed that such a fallback to COF is agreeable.

7 For avoidance of doubt, these recommendations do not apply to SOR contracts maturing on or before 30 June 2023, or whose final interest rate fixing occurs on or before 30 June 2023, as such contracts would not require remediation before maturity.

Conclusion

8 The updated guidance takes into consideration the good progress in the industry's adoption of SORA, practical considerations in bank-to-customer relations in the remediation process, while focusing on the core essentials of contract remediation to ensure a smooth transition from SOR ahead of its discontinuation in June 2023. The SC-STC strongly urges all banks and market participants to continue efforts to complete the remediation of all outstanding SOR contracts expeditiously.

³⁴ The numerator to the 20% target includes contracts where fallback language to Fallback Rate (SOR) has been incorporated.

(*Updated on 18 July 2022*)

