

## MEDIA RELEASE

22 February 2021

### CENTRAL CLEARING OF SORA DERIVATIVES EXTENDED TO 21-YEAR TENOR

1 Singapore – The Steering Committee for SOR & SIBOR Transition to SORA<sup>1</sup> (“SC-STS”) today welcomed the extension of central clearing for over-the-counter (“OTC”) SORA derivatives by LCH, from 5.5-years to 21-years. This extension would enable a build-up of liquidity<sup>2</sup> across all tenors in SORA Overnight Index Swaps (“OIS”) and basis swaps between SOR and SORA, and support the broad-based transitioning of the outstanding stock of SOR derivatives to SORA. SORA derivatives are one of the first Asian currency risk-free rate derivatives, cleared by LCH.

2 With the LCH move, the Monetary Authority of Singapore (“MAS”) will extend the tenor of its daily SORA derivatives auctions with major derivatives dealers from 5-years to 20-years.<sup>3</sup> This will facilitate price discovery in the longer tenors, helping to establish robust pricing benchmarks for new SORA products (e.g. loans and bonds), and for pricing conversions of outstanding SOR contracts to SORA. The clearing extension also paves the way for switching the discount rate and price alignment interest (PAI)<sup>4</sup> for centrally cleared SGD derivatives contracts from SOR to SORA later this year.

3 The clearing extension builds on progress in the adoption of SORA in cash and derivatives markets over the past year. Average monthly SORA derivatives turnover has increased almost ten-fold since Q2 2020, albeit from a low base, while there has been growing adoption of SORA across a range of retail, corporate loan and floating rate note products.<sup>5</sup> The clearing extension is timely as banks prepare to support increasing client demand for longer-tenor derivatives hedges, which is set to increase as the industry ceases further usage of SOR in new cash market contracts after end-April 2021.<sup>6</sup>

---

<sup>1</sup> SOR is the Singapore Dollar (SGD) Swap Offer Rate and SIBOR is the Singapore Interbank Offered Rate. Both benchmarks are published by ABS Benchmarks Administration Co Pte Ltd. SORA is the Singapore Overnight Rate Average published by MAS, and reflects the volume-weighted average rate of SGD unsecured overnight interbank lending transactions in Singapore. SORA is set to replace both SOR and SIBOR as the key interest rate benchmark referenced in SGD financial instruments. Refer to the [ABS-SFEMC and SC-STS joint Response to Feedback Received on SIBOR Reform and the Future Landscape for SGD Interest Rate Benchmarks](#) for further information on the on-going shift to a SORA-centred SGD interest rate market.

<sup>2</sup> Central clearing arrangements allow wholesale market participants to transact through a single central counterparty, instead of bilaterally with each other. This helps to mitigate counterparty credit risks, and allows participants to undertake greater volume of transactions, while reaping operational and costs synergies.

<sup>3</sup> The clearing extension to 21-years enables the clearing of 20-year benchmark tenor transactions, some of which could be slightly longer than 20-years and require the additional clearing coverage.

<sup>4</sup> Price Alignment Interest (PAI) is the overnight interest associated with funding/remunerating cash collateral posted as variation margin. It is debited from the receiver and transferred to the payer to cover the loss of interest on posted collateral.

<sup>5</sup> See “Other relevant announcements” in this SC-STS website here: <https://www.abs.org.sg/benchmark-rates/announcements>

<sup>6</sup> See SC-STS’ October 2020 announcement on timelines to cease issuance of SOR-linked financial products. <https://www.abs.org.sg/docs/library/sc-sts-announces-timelines-to-cess-issuance-of-sor-linked-loan-products-and-publishes-market-guidance-to-support-transition-to-sora.pdf>

4 Mr Daniel Koh, Global Head, Treasury Markets, Standard Chartered Bank, who chairs the Steering Committee's work on SORA derivatives, said, "We strongly welcome LCH's extension of central clearing of SORA derivatives to the longer tenors. This is a keenly awaited milestone that will enable the Committee to roll out a series of key initiatives planned for in 2021 to further deepen SORA markets. Alongside the Committee's guidance to the market to cease new issuance of SOR cash products from end-April 2021, we expect liquidity in SORA cash and derivatives products to accelerate in the coming months."

5 Ms Kate Birchall, Head of Asia Pacific, LCH, said, "The clearing extension for SORA derivatives is a first of several major milestones for LCH in 2021, to support on-going global efforts to move to alternative reference rates. We are pleased to be a global leader in the clearing of Asian currency products, and look forward to continued close collaboration with a variety of stakeholders in Singapore and the wider market."

6 For further queries, please email ABS Co. at [SORTransition@abs.org.sg](mailto:SORTransition@abs.org.sg) or call +65 6224 4300.

END

## **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 154 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 Singapore Dollar Swap Offer Rate (SOR), the SGD Spot FX and the THB Spot FX. ABS Co also administers the Fallback Rate (SOR).

More information on ABS is available at [www.abs.org.sg](http://www.abs.org.sg).

### **Steering Committee for SOR & SIBOR Transition to SORA (SC-STTS)**

The Committee was established by the Monetary Authority of Singapore (MAS) to oversee the industry-wide interest rate benchmark transition from SOR to SORA in August 2019. The MAS subsequently expanded the Committee's mandate in December 2020, to include the SIBOR-to-SORA transition as well, and renamed the Committee as the Steering Committee for SOR & SIBOR Transition to SORA (SC-STTS)<sup>7</sup>. As the transition from SOR and SIBOR involves many industry participants, as well as commercial and retail customers, SC-STTS will ensure adequate stakeholder engagement and a well-managed transition.

Led by industry, the SC-STTS is chaired by Mr Samuel Tsien, Group CEO of OCBC Bank and ABS Chairman. The Committee is responsible for providing strategic direction on industry proposals to develop new products and markets based on SORA. The Committee will also engage stakeholders to seek feedback and raise awareness on issues related to the transition from SOR and SIBOR to SORA. The Committee comprises senior representatives from key banks in Singapore, relevant industry associations, and MAS.

Click [here](#) for the list of SC-STTS members.

---

<sup>7</sup> The previous name of the Committee was the Steering Committee for SOR Transition to SORA.