

SOR TRANSITION TO SORA

FAQs FOR BOND ISSUERS

*Last updated:
25 August 2021*

List of Questions

Q1: When do issuers need to start preparing for the transition from SOR to SORA? *Further Revised in Aug 2021*	2
Q2: How can issuers check whether the existing debt securities issued are impacted by the SOR to SORA transition? *Revised in Nov 2020*	2
Q3: How do issuers know if the terms and conditions of the debt securities have incorporated provisions to deal with the SOR to SORA transition?.....	3
Q4: Does an issuer need to seek consent from bondholders to effect the transition from SOR to SORA for an existing SGD issue which references SOR? Can a bond trustee agree to the changes on behalf of the bondholders since it is an industry-wide transition? *Revised in Aug 2021*	3
Q5: If the terms and conditions of the debt securities which reference SOR provide for a call option for the issuer to redeem the debt securities on the designated redemption date, do I still need to amend the terms and conditions to cater for SOR to SORA transition if the intention is to redeem the debt securities? *Revised in Aug 2021*	3
Q6: If there are multiple banks (e.g. arrangers, lead managers, bookrunners or dealers) on an existing debt securities issue, who should an issuer approach on the transition?	4
Q7: If an issuer plans to issue perpetual debt securities or floating rate notes before the end of LIBOR in 2023, how can it incorporate SORA? *Further Revised in Aug 2021*	4
Q8: If an issuer is looking at issuing fixed rate debt securities before the end of 2021, will it be affected by the SOR to SORA transition?	4
Q9: If an issuer has entered into a swap (IRS or CCS) transaction with respect to affected legacy SGD debt securities, does it need to review the swap separately?	4
Q10. What are the fallback replacement approaches commonly used in the bond market to accommodate the reference rate change? *Further Revised in Aug 2021*	5
Q12. Will a SOR-SORA basis swap market be developed? *Revised in Aug 2021*	5
Q13: How will the interest or coupon of a floating rate note referencing SORA be fixed? Is it based on a daily overnight rate or term rate for period of say, 1 month, 3 months etc.? *Revised in Aug 2021*	5

Q1: When do issuers need to start preparing for the transition from SOR to SORA? *Further Revised in Aug 2021*

[On 27 October 2020, SC-STS announced](#) the [industry timelines](#) to support a coordinated shift away from the use of SOR. Along with the announcement, a set of market guides has also been published to help market participants prepare for the shift away from SOR, and for adoption of SORA across a range of financial products including floating rate notes: -

A [SORA market compendium](#) (“**Compendium**” or “**SORA Market Compendium**”), providing market participants with a comprehensive overview of SORA market conventions across products including floating rate notes and outlining considerations for contractual and technical specifications of SORA products and contractual fallbacks for relevant SOR contracts. The Compendium is currently being updated; the updated version will be available on <https://abs.org.sg/benchmark-rates/publications>.

The Association of Banks in Singapore had updated [A Guide for Corporates and SMEs \(Version 1.1\)](#) in July 2021.

On 29 July 2021, SC-STS published its [Recommendations for Transition of Legacy SOR Contracts](#) (the “**Recommendations**”), with updated timelines and key recommendations for industry-wide transition from SOR to SORA.

Your attention is drawn to the following Recommendations: -

Recommendation 13: Issuers of FRNs that mature after 30 June 2023 should take action well before 31 December 2021 to prepare for SOR discontinuation, including where necessary to implement a consent solicitation process. As this process could take several months, issuers are recommended to commence action as soon as practicable.

Recommendation 14: Issuers of resettable fixed rate securities that have a reset after 31 December 2021 relying on SOR IRS rates should consider their options carefully, including to consider undertaking a consent solicitation process well before 31 December 2021. As this process could take several months, issuers are recommended to commence action as soon as practicable.

Q2: How can issuers check whether the existing debt securities issued are impacted by the SOR to SORA transition? *Revised in Nov 2020*

Please refer to the terms and conditions of the debt securities you have issued and look out for any reference to SOR.

Perpetual debt securities, floating rate notes or debt securities with 'makewhole'¹ features are likely to reference SOR. Please review sections with the headers such as 'Payment', 'Interest Rate', 'Distribution', 'Swap-Offer Rate', 'Reset Date', 'First Call Date', 'Call Date', 'Benchmark' and so on. Please ascertain how SOR or the benchmark reference rate is being determined in the debt securities you have issued.

Q3: How do issuers know if the terms and conditions of the debt securities have incorporated provisions to deal with the SOR to SORA transition?

Please review the terms and conditions to assess if they provide for the discontinuation of SOR or benchmark. This is also known as 'Fallback Replacement Language' (see Q10 below). Key headers include 'Benchmark Discontinuation and Replacement', 'Independent Advisor', 'Benchmark Events', 'Adjustment Spread' and 'Benchmark Amendments'.

If the terms and conditions address the discontinuation of SOR or benchmark, you will not need to take further action. However, if the terms and conditions do not address the discontinuation of SOR or benchmark, you should assess the consequential implications and actions required in respect of such debt securities. As this is an important determination, you should consult your advisors and consultants (such as banks, in-house counsels, external law firms or professional firms who supported you in the issuance of debt securities) accordingly.

Q4: Does an issuer need to seek consent from bondholders to effect the transition from SOR to SORA for an existing SGD issue which references SOR? Can a bond trustee agree to the changes on behalf of the bondholders since it is an industry-wide transition? *Revised in Aug 2021*

The terms and conditions of debt securities will set out, among other things, whether certain terms (such as the benchmark setting) may be amended. If so, please check the terms and conditions to see if the change requires the consent of the bondholders, the bond trustee or otherwise. Chapter 5 of the [Recommendations](#) set out a general overview how such amendments may be undertaken. You may further wish to consult your advisors and consultants.

Q5: If the terms and conditions of the debt securities which reference SOR provide for a call option for the issuer to redeem the debt securities on the designated redemption date, do I still need to amend the terms and conditions to cater for SOR to SORA transition if the intention is to redeem the debt securities? *Revised in Aug 2021*

¹ Makewhole options are options given to an issuer to redeem the relevant bonds prior to their maturity date. The redemption amount may be determined by referencing SOR.

If the terms and conditions of the debt securities provide for a call option (which is a common feature in perpetual debt securities), the issuer may call the debt securities on the designated redemption date without having to amend the terms and conditions to cater for the SOR to SORA transition.

If the debt securities are not subject to a call option, the coupon of the securities has a reset feature based on SOR and the coupon reset(s) happen(s) after the end of 2021, the issuer should discuss with their advisors and consultants if and how the terms and conditions should be amended (including considering consent solicitation exercises) and be guided by the Recommendations as set out in Q1 above.

Q6: If there are multiple banks (e.g. arrangers, lead managers, bookrunners or dealers) on an existing debt securities issue, who should an issuer approach on the transition?

The transition is an industry-wide exercise and all banks would be aware of the change. Issuers may approach any one or more of the banks on the transition.

Q7: If an issuer plans to issue perpetual debt securities or floating rate notes before the end of LIBOR in 2023, how can it incorporate SORA? *Further Revised in Aug 2021*

On 27 October 2020, SC-STS published [the SORA Market Compendium](#) providing a comprehensive overview of SORA market conventions across products, including floating rate notes. Issuers are strongly encouraged to refer to the Compendium for recommended conventions and fallback provisions for SORA. Alternatively, issuers may approach any of your advisors and consultants (such as banks or professional firms who supported you in the issuance of debt securities) accordingly for further information. The Compendium is currently being updated; the updated version will be available on <https://abs.org.sg/benchmark-rates/publications>.

Q8: If an issuer is looking at issuing fixed rate debt securities before the end of 2021, will it be affected by the SOR to SORA transition?

Coupons on fixed rate debt securities will be unaffected by the SOR to SORA transition as there is no re-fixing of the coupons over the tenor of the debt securities. For debt securities with any 'makewhole' feature, the issuer should ensure that any reference to SOR for the 'makewhole' calculation also contain transition provisions. This will ensure that the 'makewhole' clause can continue to be applied, if required, after the end of 2021.

Q9: If an issuer has entered into a swap (IRS or CCS) transaction with respect to affected legacy SGD debt securities, does it need to review the swap separately?

If the swap references SOR and extends beyond the end of 2021, the issuer should contact its

swap counterparty to better understand how the SOR to SORA transition will impact the swap transaction.

Q10. What are the fallback replacement approaches commonly used in the bond market to accommodate the reference rate change? *Further Revised in Aug 2021*

There were two approaches studied and assessed by SC-STS to determine which was more suitable for the SGD bond market. The first was the appointment of an Independent Adviser to identify a fallback benchmark rate. The other was the US Alternative Reference Rates Committee (ARRC) waterfall approach, which was more prescriptive. The approach for the SGD bond market is a combination of the two approaches outlined above.

The fallback replacement approach for SORA is now set out in the [SORA Market Compendium](#) SC-STS published on 27 October 2020. You are strongly encouraged to refer to it. The Compendium is currently being updated; the updated version will be available on <https://abs.org.sg/benchmark-rates/publications>.

Q11. How will secondary bond prices be quoted during the transition phase? *Revised in Aug 2021*

During the transition period (from now to the end of June-2023), where SOR remains available, secondary bond prices can be quoted on SOR plus an appropriate spread or SORA-OIS plus an appropriate spread. Alternatively, bonds can be quoted on a yield basis. SORA-OIS means SORA Overnight Index Swap.

Q12. Will a SOR-SORA basis swap market be developed? *Revised in Aug 2021*

The average monthly SORA derivatives turnover has increased significantly since Q2 2020. This has enabled the development of SOR-SORA basis swap market. For further details, please refer to [the Timelines to Cease Issuance of SOR and SIBOR-Linked Financial Products updated on 5 August 2021 by SC-STS](#).

Q13: How will the interest or coupon of a floating rate note referencing SORA be fixed? Is it based on a daily overnight rate or term rate for period of say, 1 month, 3 months etc.? *Revised in Aug 2021*

Currently, the coupon of a floating rate note referencing SORA will be based on a daily overnight rate to be compounded over an agreed period of time, say, 1 month or 3 months. You may refer to the [Compendium](#) for more information. A term rate is currently being explored and therefore, it is not available