# SOR TRANSITION TO SORA
# FAQs FOR CORPORATES

*Last updated: 04 January 2021*

## List of Questions

**LOANS – EXISTING/LEGACY**

**Q1. My company has an existing loan that references SOR and matures after end 2021. What should I do about this?**

There is no immediate impact on your loan at this juncture, and your bank will be reaching out to you in due course to assist with the transition. However, to prepare for the upcoming transition, you are encouraged to review the terms and conditions of your loan contract to understand the implications and the actions required.

**Q2. Can my bank just replace my SOR loan pricing to SIBOR (or enhanced SIBOR)? *Revised***

Your bank will be writing to you at the appropriate time to consider different options. You will have the ability to choose the right loan package that best meets your needs. You will also need to consider if replacing a SOR loan with other benchmarks impacts your related transactions (e.g. hedges) and the corresponding accounting and tax implications.

On 29 July 2020, ABS, the SFEMC and the SC-STS issued a joint industry consultation report on SIBOR Reform and the Future Landscape for SGD Interest Rate Benchmarks, recommending the discontinuation of SIBOR in three to four years and a shift to the use of SORA as the main interest rate benchmark for SGD financial markets. The period for public feedback to the consultation closed on 30 September 2020. Further information will be published by ABS, SFEMC and SC-STS in due course, but while the roadmap for the discontinuation of SIBOR has yet to be finalized, you need to be mindful that SIBOR will likely cease to be published within the next three to four years.

While SORA is not commonly used in the loan market, it is not new and has been published daily by the MAS since 2005. Over time, just like any new benchmark, e.g., when SOR was introduced, borrowers will become familiar with SORA, and its use in loans and other cash or derivatives products will increase.

**Q3. What will happen to my outstanding loan if I do not want to change my rate, even when SOR is discontinued?**

When SOR is discontinued, your bank will no longer be able to calculate your interest payment using SOR. Instead, your loan interest payment will be calculated using a ‘fallback’ rate or other alternative provisions specified in the terms and conditions of your loan contract. You should start preparing for the transition as early as possible by reviewing the terms and conditions of your loan contract to understand the consequential implications and actions required. Your bank will reach out to you in due course to discuss the options that are available to you as a borrower once SOR is discontinued.

**Q4. How will the change in benchmark affect my loan repayment?**

The transition from SOR to another benchmark could lead to some changes to your loan repayment, depending on market conditions at that point in time. Your bank will reach out to you in due course to discuss options that are available to you as a borrower.

**Q5. If I have more than one loan pegged to SOR, will I have to re-sign every loan?**

Yes, all SOR-pegged loans will be affected once SOR is discontinued. Your bank will assist you to take the necessary actions in due course.

**Q6. What if I had hedged my SOR loan with a swap? *Revised***

If you had hedged your SOR loan with a swap, your swap would also have been likely pegged to SOR. You should review the terms of your swap contract as early as possible to understand the consequential implications once SOR is discontinued. Notably, if the terms of your swap contract provide for a 'fallback' rate, there is a possibility of a hedging mismatch if the 'fallback' rate of your loan differs or kicks in at a different time. Because hedging arrangements are typically complex and bespoke, we strongly encourage you to discuss these with your bank as early as possible.

An alternative would be to transition both your loan and swap to reference SORA, which will allow for hedge effectiveness to be maintained. SC-STS plans to provide market guidance on how users may undertake this process, and the Committee will provide further information on this matter in due course.

**Q7. What are the tax and accounting-related implications of the change in benchmark?**

Sub-Group 7 of the SC STS was formed to study the accounting and tax implications arising from the SOR to SORA transition. Where required, SC-STS will work with accounting and tax bodies in Singapore, and issue guidance on the practical application of accounting standards and tax rules in the context of existing SOR/SORA cash market exposures.

**LOANS – NEW**

**Q8. I am looking to take up a new loan. Should I avoid entering into any new contracts that still reference SOR?**

If you wish to take up a new loan that references SOR, you should review the proposed new loan contract for terms that set out, or permit a switch or fallback to an alternative rate from SOR. Your bank will discuss with you the appropriate terms to include to facilitate a smooth transition from SOR to an alternative rate.

**Q9. Who should I contact if my company is keen to take up a new loan pegged to SORA?**

If you are keen to take up a new loan pegged to SORA, kindly contact your bank or ABS for more details.

**Q10. How will SORA be used to compute interest payments for corporate borrowers? *Revised***

There are two broad mechanisms for determining interest payable for SORA products: Compounding in arrears and compounding in advance.

Compounding in arrears means the calculation of interest using the daily SORA rate available during the interest period leading up to the interest payment date. Such calculations will require businesses to consider the operational implications, such as payment systems and cashflow management, as there is less certainty of cash flows at the start of the interest period. We expect compounding in arrears to be used by larger institutions that transact in interest rate derivatives, large corporate loans and syndicated loans.

Compounding in-advance means the calculation of interest using the compounded average of daily SORA rates from a prior period. As an example, for monthly interest payments due at the end of January, the compounded average of daily SORA readings from 1 to 31 December are used. As such, you will know the interest amount due one month in advance of payment.

Please refer to "SORA – A Guide for Corporates", published by ABS on 30 November 2020, for further details.

**Q11. Will banks continue to offer fixed rate loans? Will these be affected by the transition?**

The expected discontinuation of SOR only affects contracts that reference SOR, e.g. SOR floating rate loans. Banks will continue to offer other types of loans that fit customer needs, including fixed rate loans.

**Q12. What are the next steps in developing forward-looking term SORA?**

Term SORA can only be developed if there is deep and liquid trading of SORA derivatives, e.g. SORA Overnight Indexed Swaps (OIS) transactions. Specifically, this would require frequent and sizeable daily transactions in the specific benchmark tenors of interest (e.g. 1-month OIS). The experience in other jurisdictions globally shows that it would take time for this to be achieved. Some other jurisdictions have concluded that it would not be possible for such term benchmarks to be constructed.

The SC-STS will continue to monitor the development of the SORA derivatives market and will explore the feasibility of developing such benchmarks when the market is sufficiently developed.

As there is no way to guarantee the development of such term SORA benchmarks, end-users should not delay their transition plans in anticipation of this rate, and should instead prepare to transact in products that reference compounded SORA.

**Q13. Regarding loans, will we be expecting the banks (lenders) to revise the loan margin in view that the floating rates will be different? *Revised***

Unlike SOR, which is quoted in 1-month, 3-month and 6-month tenors, SORA is an overnight rate and quoted only in an overnight tenor. Hence, SORA lacks a term and a credit risk premium, which results in it typically being lower than SOR. In order for SORA to be referenced for lending over a fixed term, an adjustment spread over SORA would likely need to be included by banks.

Please refer to "SORA – A Guide for Corporates", published by ABS on 30 November 2020, for further details.

**Q14. During transition of the reference rate SOR to SORA, will there be measures to ensure that there will not be a material gap between the two? This could lead to significant price changes to the detriment of borrowers.**

SC-STS assures banking customers that banks are not taking advantage of the transition to raise borrowing costs but are applying an adjustment spread to make-up for the economic difference between SOR and SORA rates. Banks will take reasonable steps to minimise economic impact to clients and will work with clients to address their specific concerns.

**Q15. How about non-SGD loans denoted in USD or GBP LIBOR? Will banks in Singapore be using SOFR or SONIA respectively for those loans? And if so, where can we reference term SOFR and SONIA?**

LIBOR is expected to be replaced with overnight risk-free rates (RFRs). The Secured Overnight Financing Rate (SOFR) selected by the Alternative Reference Rate Committee which was put together by the US Federal Reserve, will replace the USD LIBOR, while the Sterling Overnight Index Average (SONIA), recommended by the Bank of England's Working Group on Sterling Risk Free Reference Rates, will replace the GBP LIBOR. Banks in Singapore may reference SOFR and SONIA for floating rate USD LIBOR and GBP LIBOR loans. Please be assured that there is no immediate impact on your product at this juncture, and banks will be contacting you in due course to assist with the transition.

There are a few ways such overnight rates, like SOFR and SONIA, could be used to calculate interest payments for loans. Interest can be calculated based on a compounded average of the overnight interest rate benchmark, plus an applicable margin.

Term SOFR or Term SONIA can only be developed if there is deep and liquid trading of underlying SOFR and SONIA-linked derivatives, e.g. SOFR Overnight Indexed Swaps (OIS) transactions. These Term benchmarks do not exist today, and there is no guarantee of the development of such term benchmarks in the future.

**Q16. How far has the industry come along in its adoption of ARR and what are the key challenges? *Revised***

Singapore banks have made significant progress in the journey toward adopting Alternative Reference Rates (ARRs) in banking products, but there is still further to go. The key challenges are to educate customers on LIBOR and SOR discontinuation, and the new product offerings that reference ARRs, and to build the infrastructure and processes, as well as relevant new documentation terms, required to apply ARRs to banking products.

For more information on the progress the industry has made, please refer to the latest announcement by the SC-STS.

Additionally, on 27 October 2020, the SC-STS published industry timelines to cease the issuance of SOR-linked products and market guidance to support the transition to SORA.

These include the ‘Timelines to cease issuance of SOR-linked financial products’, ‘Overview of the usage of SORA in Loans’, and ‘End-user Checklist on Benchmark Transition’, all accessible at the ABS website.

Please refer to “SORA – A Guide for Corporates”, published by ABS on 30 November 2020, for further details.

**Q17. What should we look out for in multi-currency loan facilities?**

The same issues and challenges will need to be dealt with for the IBOR transitions of multi-currency loan facilities, albeit in respect of several different currencies and ARRs.

**Q18. Why would hedging with compounding in arrears be cheaper/easier than in advance? *Revised***

The standard market convention for derivatives referencing SOFR, SONIA, and other Alternative Reference Rates (ARRs) will follow Overnight Indexed Swap (OIS) conventions, where the floating leg index is a compounded in arrears overnight rate. Therefore, hedging with such derivatives is likely to be cheaper / easier than doing so with bespoke products, e.g. one with compounded in advance rate.

**Q19. Will the committee be working on a suggested common approach for transition of SOR loans? *Revised***

The transition pathway for existing SOR business and syndicated loans is being mapped out which will include market guidance on an industry approach for banks to transition bilateral SOR loans to SORA before end-2021.

In October 2020, the SC-STS published industry timelines to cease the issuance of SOR-linked products and market guidance to support the transition to SORA.

**Q20. What do I need to do following ABS' announcement on stopping the issuance of SOR-linked products? *New***

The market guidance published by SC-STS on 27 October 2020 aims to help users prepare for the shift away from SOR, and for the adoption of SORA across a range of financial products.

First, a report on customer segments and preferences setting out how SORA can be used in loans across different segments. Second, a SORA market compendium detailing market conventions and outlining contractual and technical specifications. Third, an end-user checklist highlighting key steps to effectively implement the transition from SOR to SORA, and from Libor to alternative reference rates.  Further materials will be published in due course, including a SORA Guide for Corporates.

All Corporates & SMEs are strongly encouraged to leverage these materials in preparation for your transition from SOR to SORA.

If you want to discuss your current SOR loan and how it may be impacted or are keen to take up a new loan pegged to SORA, kindly contact your bank or ABS for more details.

**DERIVATIVES**

**Q21. How will my outstanding derivative contracts be affected by the transition? *Revised***

If you have outstanding derivative contracts referencing SOR that mature beyond end 2021, the smoothest transition would be to replace or amend contracts referencing SOR to reference SORA before end-2021.

By end September 2021, all banks are to have substantially reduced gross exposures to SOR derivatives, including centrally cleared interbank transactions.

**Q22. What is the possible fallback for derivatives transactions that currently reference SOR?**

Based on the ISDA's consultation results and the recommendation of the SC-STS, 'Fallback Rate (SOR)' has been identified as the contractual fallback for legacy SOR derivatives.

Fallback Rate (SOR) follows the same calculation formula as SOR except that the USD LIBOR in the calculation is replaced by the fallback rate for USD LIBOR, which is the daily compounded Secured Overnight Financing Rate (Adjusted SOFR) plus a spread adjustment.

The spread in relation to Adjusted SOFR will be calculated, and published, by Bloomberg based on a methodology that was selected after a series of public consultations by ISDA. There is no further spread adjustment to be calculated in relation to Fallback Rate (SOR).

Unlike SOR, Fallback Rate (SOR) will be a backward-looking rate like Adjusted SOFR, and the rate will be known and published at the end of the calculation period.

Contractual fallbacks should be adopted only as a safety net. It is recommended that contracts that reference SOR should be replaced or amended to SORA before fallback provisions are triggered.

**Q23. Is there any guidance on the calculation of spread adjustments for contracts transition from SOR to SORA? Will there be a difference in the "adjustment spread" between Fallback SOR and SORA for the same calculation period during the cut-off date? *New***

There is currently no calculation formula to automatically convert SOR-to-SORA spreads, but Singapore is developing a basis swap market to allow for the conversion of spreads. The only available way for now to calculate spreads is using the USD Rate component to convert SOR to Fallback Rate SOR, in which the LIBOR / SOFR spread will apply.

**Q24. Is the convention 'two business-day backward shift' that applies under ISDA 2020 IBOR Fallbacks the same as the convention 'two business-day lookback with observation shift'?**

The 'two-business day lookback with observation shift' is one of the methods that can be used to calculate compounded daily interest rates, such as SORA. It is not used to calculate the Fallback Rate (SOR).

If an index cessation event and an index cessation effective date occur in relation to SOR, the ISDA 2020 IBOR Fallbacks Protocol (incorporating the ISDA IBOR Supplement) states that the Fallback Rate (SOR) for the 'Original SOR Rate Record Day' that corresponds to the original SOR fixing date will be used.

Provided that the Fallback Rate (SOR) for the 'Original SOR Rate Record Day' is not published at, or prior to, 11.30am New York time, *two Business Days* preceding the related payment date, then the Fallback Rate (SOR) that is most recently provided or published for the most recent 'Original SOR Rate Record Day' will be used.

The Fallback Rate (SOR), which will be provided by ABS Benchmarks Administration Co Pte Ltd, is calculated using the Fallback Rate (SOFR) instead of USD LIBOR in accordance with the Calculation Methodology for Fallback Rate (SOR).

**Q25. As per guidance from SC-STS to have a fallback language for SOR derivative contracts by 25 January 2021, is this for existing SOR or all new SOR derivative contract? *New***

It would be of best practices to have the fallback language by 25 January 2021 for both existing contracts and new contracts.

In respect of existing contracts, market participants can adhere to the ISDA 2020 IBOR Fallbacks Protocol to amend their contracts with other adherents to include the new fallback language.

In respect of new contracts entered into on or after 25 January 2021, the new fallback language will be automatically included, as the ISDA 2006 Definitions will be updated by the ISDA IBOR Supplement to include the new fallback language, effective on 25 January 2021.

**Q26. What is SOFR?**

SOFR is the secured overnight financing rate administered, and published, by the Federal Reserve Bank of New York and it is the recommended alternative to USD LIBOR selected by the Alternative Reference Rate Committee (ARRC). ARRC is a group of private market participants convened by the Federal Reserve Board and the Federal Reserve Bank of New York.

**Q27. How long will Fallback Rate (SOR) be in effect? *Revised***

Fallback Rate (SOR), like the SOR, will be administered by the ABS Benchmarks Administration Co Pte Ltd, and is intended as an interim measure to buy time for users to transition their derivatives contracts to reference SORA. It is not intended as a reference benchmark for the SGD derivatives market, which should transition to reference SORA. As such, Fallback Rate (SOR) will only be published for about three years following the fallback trigger, after which time Fallback Rate (SOR) is expected to be permanently discontinued.

**Q28. Is there legal documentation setting out the new fallback to Fallback Rate (SOR)?**

ISDA will be amending the 2006 ISDA Definitions to incorporate the fallback trigger and fallback rates for LIBOR and other major IBORs, including the fallback to Fallback Rate (SOR) for SOR derivatives. By incorporating the amended 2006 ISDA Definitions for new derivatives entered into on or after the effective date, market participants can adopt the new fallbacks. ISDA will also publish a related IBOR Fallbacks Protocol which market participants can use to amend legacy derivatives entered into prior to the effective date of the amended 2006 ISDA Definitions.

To facilitate legacy transitions, contractual fallbacks for SOR derivatives are scheduled to be published in 3Q 2020, in the ISDA amended definitions and related protocol. SC-STS also supports the ISDA February 2020 consultation to incorporate pre-cessation triggers.

Contractual fallbacks should be adopted only as a safety net. It is recommended that contracts that reference SOR should be replaced or amended to SORA before fallback provisions are triggered.

**Q29. Expected convention for derivatives seems different from ISDA's protocol convention. Does this mean for new derivatives contracts, payment delay keeps being the market convention for all currencies? *New***

The market convention across many risk-free rates, including in established markets, is often a payment delay. However, payment delays cannot be applied to legacy contracts transited via the ISDA protocol because only the ISDA fallback definition of LIBOR or SOR is amended, with other terms unchanged.

**Q30. For SORA payment convention where it is 5-Business-Day 'Lookback without observation shift', is it assumed that the interest payment would be delayed? Can the derivative be structured the same? *New***

Typically, lookbacks without observation shift are implemented in order to determine the payment amount ahead of the payment date. In such a case, additional payment delays are not required. Derivatives are flexible and can cater for a broad range of features, including a lockout approach and lookbacks with and without observation shift.

**Q31. How will the market transit from SOR to SORA for derivatives trading?**

The transition from SOR to SORA will be a phased approach. SC-STS plans to develop active trading of SORA derivatives from the first half of 2020, and trading of SORA derivatives has already commenced in the inter-bank markets. Market participants should consider referencing SORA instead of SOR in new contracts. As SORA derivatives increase in usage, they will become an alternative to SOR-based derivatives and will eventually replace SOR as the benchmark for SGD derivatives.

To facilitate wider use of SORA derivatives, the SC-STS in February 2020 developed and published guidance on market conventions across SORA derivatives (OIS, SOR-SORA basis swaps, and SGD SORA USD SOFR cross currency swaps).

The further deepening of SORA-based markets would also facilitate market participants' transition of legacy SOR contracts to SORA.

**Q32. As a market participant, what do I need to do to prepare for this transition? *Revised***

You should assess your affected contracts, products, and services, and familiarise yourself in the developments of this transition.

If you wish to enter into new derivative contracts that reference SOR, you should consider adopting appropriate fallbacks in your contracts. By end September 2021, all banks are to have substantially reduced gross exposures to SOR derivatives, including centrally cleared interbank transactions. If you wish to enter into new derivatives contracts that references SORA, your bank would be happy to discuss this further with you.

**Q33. Can I still keep using SOR after 31 December 2021? *Revised***

No, the continued use of SOR is not likely to be feasible after 31 December 2021, given one of its components is USD LIBOR. The UK Financial Conduct Authority (FCA), the supervisory authority of LIBOR, has stated that it will no longer compel banks to submit rates used for the calculation of LIBOR after 31 December 2021. This means that LIBOR is expected to be discontinued after end-2021. As SOR utilises the USD LIBOR in its computation, the cessation of LIBOR will directly affect the sustainability of SOR. You should prepare to shift towards SORA derivatives well in advance of end 2021.

By end September 2021, all banks in Singapore are to have substantially reduced gross exposures to SOR derivatives, including centrally cleared interbank transactions.

**Q34. Are all derivatives transactions impacted by this change? *Revised***

All SGD interest rate derivatives, including cross currency swaps, and all structured products referencing SOR will be impacted.

By end September 2021, all banks are to have substantially reduced gross exposures to SOR derivatives, including centrally cleared interbank transactions.

**Q35. Have SORA derivatives trades been executed in the market?**

The first SORA OIS trades were transacted in the interbank market in November 2019. SGD SORA USD SOFR cross currency swaps, and SOR-SORA basis swaps have also been transacted since then.

The recent increase in SORA derivatives pricing being actively quoted by dealers and made available on key financial market data platforms, including Bloomberg, Refinitiv, and broker screens (BGC, ICAP, Tradition, Tullett Prebon, GFI, Nittan), will help build further liquidity in SORA markets.

In addition, trade processing platforms such as MarkitWire also began supporting SORA derivatives in May 2020, booking the first bilateral SORA Interest Rate Swaps (IRS) trade on their platform.

Good progress has also been made to ensure key market infrastructure is available to facilitate trading of SORA derivatives. In May 2020, LCH launched the central clearing of over-the-counter SORA instruments including SORA OIS and SOR-SORA basis swaps, and also cleared the first SORA swaps. This will help catalyse interdealer activity in SORA derivative products, and allow for broader adoption of SORA in financial products.

**Q36. Will there be a non-subscription live page to show SORA derivatives pricing for price discovery?**

SORA derivatives pricing is increasingly being actively quoted by dealers and made available on key financial market data platforms, including Bloomberg, Refinitiv, and broker screens (BGC, ICAP, Tradition, Tullett Prebon, GFI, Nittan). This will help build further liquidity in SORA markets.

**Q37. Are banks ready to trade SORA? *Revised***

As of November 2020, all of the member banks in Subgroup 1: Derivatives under the SC-STS (Australia and New Zealand Banking Group Limited, Bank of America, Barclays Bank PLC, BNP Paribas, Citibank NA, DBS Bank Ltd, Deutsche Bank AG, Singapore Branch, HSBC, JP Morgan Chase Bank, N.A., Maybank, OCBC Bank, Standard Chartered Bank, UBS and United Overseas Bank Limited) are ready to trade SORA derivatives, paving the way for greater market participation and increased liquidity.

**Q38. How does the committee intend to build up liquidity in SORA products as Singapore dollar instruments by itself does not have much liquidity?**

Progress has been made in several domains to encourage greater market participation and enhance liquidity. There has been an increase in SORA derivatives pricing being actively quoted and made available on key financial market data platforms, including Bloomberg and Refinitiv, broker screens. Good progress has also been made to ensure key market infrastructure is available to facilitate trading of SORA derivatives. On 19 May 2020, LCH launched the central clearing of over-the-counter SORA instruments, including SORA OIS and SOR-SORA basis swaps, and also cleared the first SORA swaps between OCBC Bank and Standard Chartered Bank. SC-STS continues to work closely with member banks to facilitate the transition in other products such as bonds and loans to build demand for SORA-linked derivatives (for hedging etc.) in the market.

**Q39. When will SORA futures be launched and on which exchange? How long will it run parallel to SOR to determine its stability?**

While there are no immediate plans to launch SORA futures, discussions are ongoing to determine the relevant products for the market as liquidity deepens.

**Q40. What can we expect if the forward-looking SORA term rates fail to materialise, and what specifically is needed to build the forward-looking term rates? Is there a minimum number of transactions needed for any particular tenor?**

Term SORA can only be developed if there is deep and liquid trading of SORA derivatives, e.g. SORA Overnight Indexed Swaps (OIS) transactions. Specifically, this would require frequent and sizeable daily transactions in the specific benchmark tenors of interest (e.g. 1-month OIS). The experience in other jurisdictions globally shows that it would take time for this to be achieved. Some other jurisdictions have concluded that it would not be possible for such term benchmarks to be constructed.

The SC-STS will continue to monitor the development of the SORA derivatives market and will explore the feasibility of developing such benchmarks when the market is sufficiently developed.

**Q41. Understand that the derivative markets will be using the compounded-in-arrears SORA, does this mean that it will apply across all the banks?**

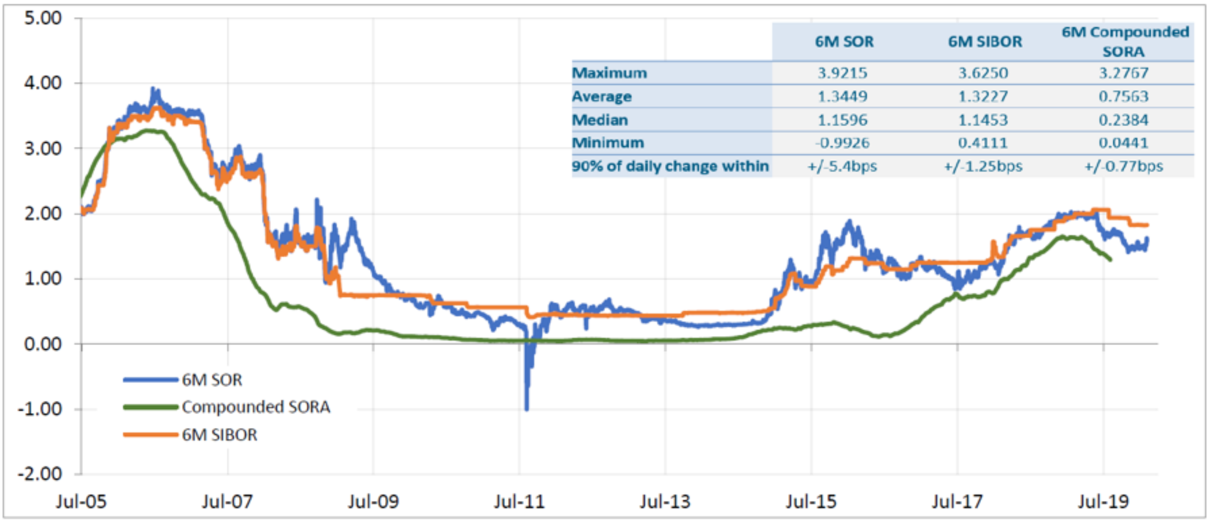
ABS SC-STS said in its press release dated 29 June 2020 that SC-STS published in February 2020 guidance on market conventions across SORA derivatives (Overnight Index Swaps, Cross-Currency Swaps, SOR-SORA Basis Swaps) to enable broader adoption by market participants.

**Q42. How do we ensure that the interest rates differences between SOR and SORA rates are minimal when transitioning existing SOR contracts to SORA, for both hedged and unhedged interest rate products?**

The use of overnight interest rate benchmarks in financial products is increasing in other major currency areas. These include futures and Overnight Indexed Swaps (OIS) referencing SOFR and SONIA. Market participants that have experience with such products should find the adoption of SORA-based derivatives to be relatively easy.

Globally, the use of overnight interest rate benchmarks (i.e. risk free rates or RFR) has been gaining traction in many key jurisdictions, including the UK and US. While there were some initial concerns around the volatility of SORA on a daily basis, it was recognised that financial products which reference overnight rates typically use an average rate over a period, and not a single day’s rate. For example, a SGD OIS or loan contract could be settled against the 3-month or 6-

month compounded average SORA. As seen in the chart below, this compounded average SORA which financial contracts would reference, is more stable than the 6-month SOR, which most SGD derivatives currently reference.




There are also several key benefits in using compounded SORA in cash markets:

- Such rates constructed from deep underlying overnight funding markets, are very robust and not susceptible to manipulation.
- The averaging effect of compounded SORA rates would result in more stable rates compared to forward-looking term rates, which are exposed to idiosyncratic market factors on a single day's fixing, such as quarter/year-end volatility.
- With the SORA derivatives market moving towards compounded rates (in line with derivatives markets globally), having cash products pegged to compounded rates allows for more effective hedging as the basis risk between cash and derivatives markets is minimised.

**OTHER MATTERS**

**Q43. Should firms start building or investing systems to manage SORA products?**

The use of SORA in your financial contracts will require changes in systems, operations, accounting and other processes. It is important that firms start reviewing the changes needed, as these will take time to implement. The industry is trending towards the use of compounded rates, in SGD as with the major currencies; it is important for institutions to have in place the systems to manage such backward-looking compounded rates.