SOR AND SIBOR TRANSITION TO SORA
GENERAL FAQs

Last updated on 13 October 2021

<u>Global Benchmark Reforms</u>

Q1: Why is there a need for an industry-wide transition from SOR and SIBOR to SORA?

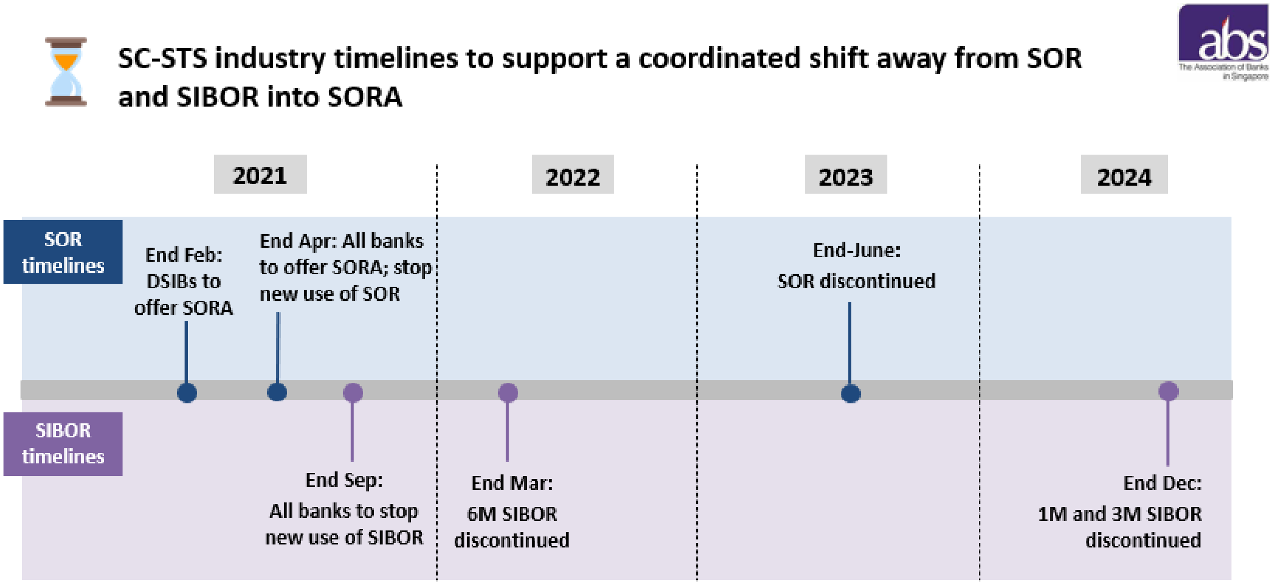
The need to transition from Singapore Dollar Swap Offer Rate (SOR) and Singapore Interbank Offered Rate (SIBOR) arises from the global reform efforts to improve the robustness and integrity of financial benchmarks[1]. As part of this shift, in August 2019, The Association of Banks in Singapore (ABS) and the Singapore Foreign Exchange Market Committee (ABS-SFEMC) issued a consultation report, which identified the Singapore Overnight Rate Average (SORA) as the alternative interest rate benchmark to replace SOR in Singapore Dollar (SGD) interest rate market. This was intended to address the impending discontinuation of SOR, when USD LIBOR was expected to be discontinued in future, as SOR relies on USD LIBOR in its computation methodology. The UK Financial Conduct Authority (FCA), the supervisory authority of LIBOR, subsequently confirmed in March 2021 that the 1-month, 3-month and 6-month USD LIBOR would be discontinued or be no longer representative immediately after 30 June 2023. SOR will therefore be similarly discontinued immediately after 30 June 2023.

In view of these developments, the ABS-SFEMC, together with the Steering Committee for SOR & SIBOR Transition to SORA (SC-STS), also consulted on SIBOR and the future landscape for SGD interest rate benchmarks in July 2020.[2] They assessed that it would be beneficial for the Singapore Dollar (SGD) financial markets to shift to a SORA-centred landscape. This would avoid market fragmentation, facilitate easier comparison of loan pricing, and promote the development of deep and efficient SORA markets in the long run.

To prepare the industry for the eventual SOR and SIBOR discontinuation and support a coordinated shift towards a SORA-centred interest rate landscape, the SC-STS has also issued recommended timelines for banks and customers to cease the usage of SOR and SIBOR in new contracts as set out in the diagram below:

[1] For general background regarding benchmarks transition from LIBOR, please refer to IOSCO's "Statement on Communication and Outreach to Inform Relevant Stakeholders Regarding Benchmarks Transition" dated 31 July 2019: https://www.iosco.org/library/pubdocs/pdf/IOSCOPD636.pdf.

[2] See "SIBOR Reform and the Future Landscape for SGD Interest Rate Benchmarks" dated 29 July 2020: https://abs.org.sg/docs/library/sibor-reform-and-the-future-landscape-for-sgd-interest-rate-benchmarks.pdf.



Q2: Are other major economies also transitioning to alternative benchmark rates?

Yes, other major economies are also transitioning to alternative benchmark rates.

- In the US, USD LIBOR will transition to SOFR (Secured Overnight Financing Rate);
- In Europe, EUR LIBOR to €STER (Euro Short Term Rate);
- In UK, GBP LIBOR to SONIA (Sterling Overnight Index Average);
- In Switzerland, CHF LIBOR to SARON (Swiss Average Rate Overnight); and
- In Japan, JPY LIBOR to TONA (Tokyo Overnight Average Rate).

The rates identified by these jurisdictions are all overnight interest rate benchmarks and are a mix of both secured and unsecured interest rates.

	United States	United Kingdom	Euro Area	Switzerland	Japan
Alternative Rate	SOFR	SONIA	ESTER	SARON	TONA
Administrator	FRBNY	BOE	ECB	SIX Swiss Exchange	BOJ
Secured	✓	X	X	✓	X
Overnight Rate	✓	✓	✓	✓	✓

Steering Committee for SOR & SIBOR Transition to SORA (SC-STS)

Q3: What is the Steering Committee for SOR & SIBOR Transition to SORA (SC-STS)? Who are the members?

The SC-STS was established by the Monetary Authority of Singapore (MAS) in August 2019 to oversee the industry-wide interest rate benchmark transition from SOR to SORA. As the transition involves many industry participants, as well as commercial and retail customers, it is critical to have strong industry co-ordination and comprehensive stakeholder engagement in order to achieve a well-managed transition.

The SC-STS is co-chaired by the Chairman of ABS and Deputy Managing Director of the Markets and Development Group, MAS. The Committee provides strategic direction on industry initiatives to develop new products and markets based on SORA. It also engages 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-STS members.

Q4. What are the objectives of SC-STS?

The key objective of the SC-STS is to provide strategic direction on industry initiatives to develop new products and markets based on SORA so as to facilitate a smooth transition away from SOR and SIBOR into SORA. The SC-STS consults and engages relevant stakeholders proactively in developing and publishing key market guidance (e.g. on fallbacks, market conventions, transition approaches, etc) and supports banks' efforts to help end-customers make informed decisions.

Transition to SORA

Q6: What is SORA? Where can I get data on this benchmark?

SORA is the volume-weighted average rate at which banks in Singapore borrow funds overnight from one another. SORA has been administered and published daily by the MAS since 2005. It is a robust and transparent interest rate benchmark and will replace SOR (Singapore Dollar Swap Offer Rate) and SIBOR (Singapore Interbank Offered Rate) as the key interest rate benchmark for Singapore dollar financial products such as loans, floating rate bonds, and interest rate derivatives.

As interest payments on financial products are typically based on an average of daily SORA readings over a period rather than a single day's SORA reading, for ease of reference, MAS also publishes

Compounded SORA[3] rates in 1-month, 3-month and 6-month tenors for public use. 1-month, 3-month and 6-month Compounded SORA represent respectively the compounded average of daily SORA readings over the preceding one-, three- or six-month periods.

Q8: Which product types will be affected by the transition?

Any product referencing SOR or SIBOR will be affected. For SOR, this could include derivatives, cash market products (e.g. bilateral business loans, syndicated loans, retail mortgages, floating rate notes, perpetual securities, and banks' capital instruments), as well as outstanding debt securities with resettable interest rate features.

SIBOR is more commonly used in the small- and medium-sized enterprise (SME) and retail loan markets.

Q9: Is the usage of overnight interest rates common in the financial markets? How does SORA compare with SOR and SIBOR? Is it more volatile?

The use of overnight interest rate benchmarks in financial products is not new. Overnight interest rate benchmarks have been used for many decades in derivative products such as futures and Overnight Indexed Swaps (OIS). Globally, with the discontinuation of LIBOR and other benchmarks such as SOR and SIBOR, the use of overnight interest rates in cash market products such as loans and bonds is also increasing rapidly.

The shift towards the use of overnight interest rates is taking place because the largest volume of interbank transactions take place in the overnight tenor. This allows for the construction of benchmarks which are the most robust, because the large volume of transactions provide the necessary data points for accurate determination of market rates.

While interest rates fluctuate from day to day, a key benefit of the use of overnight interest rates stems from the industry practice of using an average of daily overnight rates over a period, instead of a single day's rate. For example, a SORA based loan contract may settle against the compounded average of daily SORA readings over a 3-month period – i.e. 3-month compounded SORA. This contrasts with the practice for use of legacy benchmarks such as SOR and SIBOR, where a single day's SOR or SIBOR reading would apply for each interest payment. The averaging effect in the use of SORA smooths out day-to-day fluctuations in the overnight rate, producing a rate that is more stable and predictable for borrowers. As seen in the chart and table below, the 3-month compounded SORA is more stable than the 3-month SOR.

[3] https://eservices.mas.gov.sg/statistics/dir/DomesticInterestRates.aspx.

Historical data on SOR, SORA and SIBOR

	3M SIBOR	3M SOR	3M Compounded SORA
Average (%)	1.1646	1.1118	0.7278
Median (%)	0.8732	0.8035	0.2252
Maximum (%)	3.5625	3.9682	3.3490
Minimum (%)	0.3442	-0.6987	0.0362
Observations between October 2005 to September 2021.			

Finally, with both derivatives and cash markets (i.e. loans) moving towards the use of SORA, this allows for more effective hedging as the basis risk between cash and derivatives markets is minimised.