

MEDIA RELEASE

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RECOMMENDATIONS FOR TRANSITION OF LEGACY SOR CONTRACTS

1 **Singapore – The Steering Committee for SOR & SIBOR Transition to SORA¹ (“SC-STS”) today published a [report](#) setting out updated timelines and key recommendations for the industry-wide transition of financial contracts away from the legacy use of SOR.** The recommendations cover a wide spectrum of financial products across wholesale and retail markets, and aim to facilitate a smooth transition out of SOR contracts.

Wholesale markets should substantially shift out of legacy SOR contracts by end-2021

2 **The SC-STS strongly encourages wholesale market participants to substantially shift out of their legacy SOR exposures by 31 December 2021, using the SOR-SORA basis swap market as a transparent and market-determined reference for the transition from SOR to SORA.** The SOR-SORA basis swap market provides market-determined pricing to exchange a stream of SOR payments to SORA plus an adjustment spread². This allows the interest exchanged on a contract to be broadly comparable over the remaining tenor of the contract after the conversion from SOR to SORA.

3 **The SOR-SORA basis swap market is expected to be liquid as the industry-wide transition gathers pace, but will become less liquid in 2022 as derivatives market approach the completion of transition from SOR to SORA.** Hence, wholesale market participants seeking to reference this market for their transition should aim to convert all legacy SOR contracts to SORA by 31 December 2021. Participants that choose to ‘wait-and-see’ run the risk of eventually having to convert their contracts under much less liquid market conditions, and at potentially less favourable rates.

Corporate loans

4 **Borrowers and lenders should refer to the SOR-SORA basis swap mid-rate as a starting point for discussions on conversion.** The mid-rate is deemed to be reasonable as it is in the interest of both parties to convert the legacy SOR contract to reference SORA before SOR is discontinued. The recommendations also set out why a direct transition from SOR to SORA is preferred to relying on Fallback Rate (SOR), which is an interim rate that will be discontinued after 31 December 2024. In addition, given that syndicated loans form close to 60% (or S\$46 billion) of legacy SOR corporate loans that mature after SOR is discontinued, the SC-STS recommends that Agent Banks lead the coordination among lenders, borrowers and

¹ 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 borrowing transactions in Singapore. SORA is set to replace both SOR and SIBOR as the key interest rate benchmark referenced in SGD financial instruments.

² SOR is a fundamentally different interest rate benchmark from SORA. SOR incorporates term and credit risk premium while SORA does not due to its overnight tenor of borrowing, which results in SOR being higher than SORA most of the time.

all other parties to the syndicated loan in order to facilitate a smooth loan conversion to SORA.

Derivatives

5 Market participants should actively transition out of SOR derivatives by end-December 2021, in tandem with banks' gradual wind-down of their SOR exposures in the months ahead. Wholesale market participants have made significant progress in this transition. Turnover in SORA derivatives surged to a fresh high of S\$41 billion in June 2021, and this amounted to 17% of SOR derivatives turnover (as compared with 3% in May 2021). At the same time, banks have substantially reduced their gross exposures in SOR derivatives, with turnover in SOR derivatives steadily declining. The SC-STS strongly urges market participants to convert their derivative contracts to SORA early, while liquidity in the SOR-SORA basis market remains ample.

Bonds

6 It is essential for issuers of (i) resettable fixed rate securities that reference SOR interest rate swap rates after 31 December 2021 and (ii) floating rate notes that mature after 30 June 2023, to immediately explore options for the remediation of such securities. Where necessary, consent solicitation processes should commence as soon as practicable and before 31 December 2021, as these processes can take several months to complete.

Retail loan market to have a longer transition period from September 2021 to October 2022

7 The SC-STS recommends a simplified transition approach for the retail loan market, where banks would make available to retail customers a SORA Conversion Package at no additional fee or lock-in. The SORA Conversion Package switches a customer's existing SOR loan to a comparable SORA loan by applying a standardised Adjustment Spread (Retail). The spread reflects the average difference between SOR and 3-month SORA compounded-in-advance over the last three months. Given the large number of retail contracts to be converted, banks and their retail customers will benefit from a simplified and efficient approach.

8 The SORA Conversion Package will be made available to retail customers with legacy SOR loans from 1 September 2021 to 31 October 2022 in order to facilitate their voluntary conversion to a comparable SORA loan. Under voluntary conversion, banks can also offer customers the option to convert to any prevailing loan package offered by the bank. The SC-STS discourages transition of SOR loans to SIBOR, in line with its previous guidance that banks stop new use of SIBOR after 30 September 2021. SIBOR will be discontinued after 31 December 2024.

9 The SC-STS will undertake a public education campaign starting in September 2021 to raise awareness on the industry-wide transition from SOR to SORA. Banks will also directly engage retail customers with legacy SOR loans in October 2021 to encourage conversion.

10 Mr Wee Ee Cheong, Deputy Chairman and CEO of UOB Ltd, ABS Chairman and the SC-STS Co-Chair, said, "As an industry, banks in Singapore have made significant progress in developing new and vibrant SORA markets. The focus for the coming months will be on engaging

customers to facilitate their smooth transition to the new SORA-centered interest rate regime. This crucial phase will see banks working towards providing more solutions to support the shift towards using SORA-based financial products. The SORA-centred interest rate benchmark regime will benefit both customers and financial institutions as we progress towards a more transparent, reliable and efficient market.”

11 **Mr Leong Sing Chiong, MAS Deputy Managing Director and the SC-STS Co-Chair, said,** “MAS strongly supports the SC-STS’ recommendations, and urges banks and customers to take active steps to convert their legacy SOR contracts to SORA as soon as practicable. It is in the best interest of all market participants to complete legacy transition efforts early, while liquidity conditions in both SOR and SORA markets remain conducive. This shift towards a SORA-centred interest rate market will contribute to more liquid, efficient and robust Singapore dollar markets, bringing long term benefits to banks and their customers.”

12 The SC-STS report on [“Recommendations for Transition of Legacy SOR Contracts”](#) and previous publications can be found [here](#). For further queries, please email ABS Co. at SORTransition@abs.org.sg or call +65 6224 4300.

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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 Singapore Dollar Spot FX and the Thai Baht Spot FX. ABS Co also administers the Fallback Rate (SOR).

More information on ABS is available at 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 SORA³. As the transition from SOR and SIBOR involves many industry participants, as well as commercial and retail customers, the SC-STTS seeks to ensure adequate stakeholder engagement and a well-managed transition.

The SC-STTS is co-chaired by Mr Wee Ee Cheong, Deputy Chairman and CEO of United Overseas Bank Ltd, and ABS Chairman, together with Mr Leong Sing Chiong, MAS Deputy Managing Director (Markets and Development). 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 and relevant industry associations.

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

³ The previous name of the Committee was the Steering Committee for SOR Transition to SORA.