

MEDIA RELEASE

30 August 2019

ABS-SFEMC CONSULTS ON THE ROADMAP FOR TRANSITION OF INTEREST RATE BENCHMARKS: FROM SGD SWAP OFFER RATE (“SOR”) TO SINGAPORE OVERNIGHT RATE AVERAGE (“SORA”)

1 Singapore – The Association of Banks in Singapore and the Singapore Foreign Exchange Market Committee (“ABS-SFEMC”) today issued a consultation report that identifies SORA as the alternative interest rate benchmark to SOR, and sets out a roadmap for this transition. ABS-SFEMC had assessed that such a shift is necessary given the likely discontinuation of USD LIBOR, following the announcement by the UK regulatory authorities that the benchmark will not be sustained by regulatory powers after end-2021.¹ As SOR relies on USD LIBOR in its computation methodology, the likely discontinuation of LIBOR after end-2021 directly impacts the future sustainability of SOR.

2 ABS-SFEMC had studied various options and found SORA to be the most robust and suitable alternative benchmark to SOR, particularly for the SGD interest rate derivatives market, as it is a transaction-based benchmark underpinned by a deep and liquid overnight funding market. Given that SORA has been published by the Monetary Authority of Singapore (“MAS”) since July 2005, this also provides a long historical time series which facilitates analysis for risk management and pricing purposes by market participants. Importantly, the choice of SORA as the reference benchmark for SGD interest rate derivatives is also aligned with the global shift for derivatives markets to reference near risk-free rates. All the above factors would be key in ensuring broad-based adoption by market participants.

3 For SGD cash products (e.g. loans) that currently reference SOR, ABS-SFEMC recommends that such products can continue to reference various interest rate benchmarks, including SIBOR, SORA, or banks’ internal funding rates. This is consistent with the current industry practice where SGD cash products use a broad range of interest rate benchmarks.

4 ABS-SFEMC envisages a phased transition from SOR to SORA over the next two years, starting with the deepening of new SORA-based markets, and thereafter the transition of SOR-based legacy contracts. This will entail strong industry-wide cooperation and coordination on a range of initiatives, such as developing industry best practices and market conventions to promote the take-up of SORA-based products in financial markets, and conducting outreach and education across various end-users to raise awareness.

5 To oversee effective coordination and smooth implementation of these transition efforts, MAS has set up an industry-led Steering Committee for SOR Transition to SORA (“SC-ST”).²

¹ UK authorities have highlighted that it would not persuade or oblige panel banks to remain on the LIBOR panel after end-2021.

² <https://www.mas.gov.sg/news/media-releases/2019/MAS-Sets-Up-Steering-Committee-to-Drive-the-Interest-Rate-Benchmark-Transition-from-SGD-SOR-to-SORA>

The SC-STs will provide strategic direction to develop new products and markets based on SORA, and serve as a key coordinating platform to engage relevant stakeholders involved in this transition.

6 The ABS-SFEMC consultation report can be found at <https://abs.org.sg/docs/library/consultation-report-on-roadmap-for-transition-of-interest-rate-benchmarks-from-sor-to-sora.pdf>. ABS-SFEMC invites stakeholders to provide feedback on the Roadmap and identified areas of work using the feedback template found at <https://abs.org.sg/docs/library/feedback-template-on-roadmap-for-transition-of-interest-rate-benchmarks-from-sor-to-sora.docx>. For further queries, please email ABS Co at SORTransition@abs.org.sg or call +65 6224 4300.

Note to Editors:

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 155 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 Swap Offer Rate (SOR), the SGD Spot FX and the THB Spot FX.

More information on ABS is available at www.abs.org.sg.

Singapore Foreign Exchange Market Committee (SFEMC)

The SFEMC aims to foster the growth and development of Singapore as a leading global financial centre in Asia, with specific focus on foreign exchange, money markets, fixed income and derivatives markets. The SFEMC comprises a diverse group of capital market participants, including from banks, brokers and asset managers. Members are selected based on their ability to contribute to the objectives of the SFEMC, experience in the industry and seniority in their respective firms.

The SFEMC's specific objectives are:

- Foster the broadening and deepening of capital markets;
- Discuss technical and structural issues relating to capital markets, and to play a coordinating role amongst market participants during times of market instability;
- Develop and recommend appropriate industry standards and codes;
- Promote high standards of professional conduct and competencies in market participants; and
- Serve as a channel of communication amongst market participants and the Monetary Authority of Singapore (MAS).

The SFEMC is responsible for the Singapore Guide to Conduct and Market Practices for the Wholesale Financial Markets (Blue Book).

The SFEMC also works closely with the Association of Banks in Singapore, the Singapore Money Brokers Association (SMBA), the ACI Singapore, the Investment Management Association of Singapore, the Association of Corporate Treasurers (Singapore), as well as other similar committees involved in financial markets.