

## MEDIA RELEASE

### SINGAPORE MAKES SIGNIFICANT PROGRESS IN PREPARING FOR THE SOR TO SORA TRANSITION

**Majority of SC-STS member banks' ready to trade SORA derivatives, and good progress has been achieved for bonds and perpetual securities as well as business and syndicated loans. Communication and public education have intensified over the past months**

Singapore, 29 June 2020 – Since its formation in August 2019, the Steering Committee for SOR Transition to SORA<sup>1</sup> (“SC-STS”) has made significant progress in front-loading the key technical preparation work required to support benchmark transition. This includes establishing key market conventions and infrastructure, enhancing industry and system readiness, and starting early public education and communication efforts. This will help lay important groundwork to facilitate banks to further drive early adoption and pilot new SORA products in the second half of 2020, with the goal of a broader base transition starting in 2021.

#### Interest Rate Derivatives

The majority<sup>2</sup> of the member banks in the SC-STS are ready to trade Singapore Overnight Rate Average (“SORA”) derivatives, paving the way for greater market participation and increased liquidity.

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<sup>3</sup>, will help build further liquidity in SORA markets.

This development underscores the SC-STS’s commitment to laying the groundwork to achieve a smooth transition from SOR to SORA in the derivatives market. In February 2020, SC-STS published [guidance on market conventions across SORA derivatives \(Overnight Index Swaps, Cross-Currency Swaps, SOR-SORA Basis Swaps\)](#) to enable broader adoption by market participants.

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. This will help catalyse

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<sup>1</sup> SOR is the Singapore Dollar (SGD) Swap Offer Rate published by the ABS Benchmarks Administration Co Pte Ltd. SORA is the Singapore Overnight Rate Average published by the Monetary Authority of Singapore, and reflects the volume-weighted average rate of SGD unsecured overnight interbank borrowing transactions in Singapore.

<sup>2</sup> The member banks ready to trade SORA derivatives are: Australia and New Zealand Banking Group Limited, Barclays Bank PLC, BNP Paribas, Citibank NA, DBS Bank Ltd, Deutsche Bank AG, Singapore Branch, HSBC, JP Morgan Chase Bank, N.A., OCBC Bank, Standard Chartered Bank and United Overseas Bank Limited.

<sup>3</sup> Broker screens carrying SORA derivatives quotes are: BGC, ICAP, Tradition, Tullett Prebon, GFI and Nittan.

interdealer activity in SORA derivative products and allow for broader adoption of SORA in financial products.

In addition, trade processing platforms such as MarkitWire also began supporting SORA derivatives in early May 2020, with Australia and New Zealand Banking Group Limited and Standard Chartered Bank booking the first bilateral SORA Interest Rate Swaps (IRS) trade on their platform.

To facilitate legacy transitions, contractual fallbacks for SOR derivatives are scheduled to be published in the coming months, in the International Swaps and Derivatives Association (“ISDA”) amended definitions and related protocol. SC-STS also supports the [ISDA February 2020 consultation](#) to incorporate pre-cessation triggers.

To foster greater understanding of the fallback reference rate, ABS plans to publish Adjusted SOR<sup>4</sup> in the third quarter of 2020. This is expected to come after Bloomberg publishes indicative Adjusted Secured Overnight Financing Rate (“SOFR”), which is the fallback rate for USD LIBOR, and would be used as an input to the Adjusted SOR computation.

In November 2019, [OCBC Bank and Standard Chartered Bank completed Singapore’s first OIS derivatives transaction using SORA as the interest rate benchmark](#); Deutsche Bank and DBS Bank completed another trade in the same month. In February 2020, OCBC Bank and Standard Chartered Bank also booked the market’s first SGD SORA and USD SOFR Cross-Currency Swaps.

## **Bonds and Perpetual Securities**

Good progress has also been achieved in the transition journey for bonds and perpetual securities as well as business and syndicated loans.

The existing SGD-denominated debt securities referencing SOR have been identified. These debt securities include floating rate notes, perpetual securities and capital instruments with features to reset interest rates based on SOR. Notices have been sent to the issuers of these securities informing them the impending transition of SOR to SORA and where necessary, to prepare for the transition by reviewing their deal documents, and to seek professional advice on the appropriate actions to be taken.

Concurrently, to achieve a smooth transition, market convention for debt securities referencing to SORA and an industry standard fallback replacement language are being established, and expected to be finalised by 3Q 2020. Concurrently, the potential impact of the transition on valuation, accounting and tax treatment of these instruments are being studied, and further market guidance on these will be provided where relevant.

In May 2020, [DBS Bank issued the first floating rate notes referencing SORA](#). The S\$20 million notes is part of the financial sector’s overall drive to encourage corporations into an early adoption of SORA as the benchmark rate, with plans for more SORA issuances in 2020.

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<sup>4</sup> Adjusted SOR is the fallback reference rate for SOR based on actual transactions in the USD/SGD FX swap market and Adjusted SOFR plus a spread adjustment.

## Business and Syndicated Loans

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.

Recommendations on fallback language for existing SOR business and syndicated loans are expected to be published by 3Q 2020 as well.

To enable SORA loan adoption, the recommended key conventions and provisions for business loans referencing SORA are being finalised and will be made available later in the year. Banks are working on ensuring operational and systems readiness for the adoption of SORA in business loans.

SC-STS has been engaging large corporates to be early adopters in the use of SORA as a benchmark rate for their business loans. To this end, in June 2020, [OCBC Bank extended the first SORA-based loan to CapitaLand](#). The compounded average SORA will be calculated in arrears, using the 'Five-business day backward-shifted observation period' methodology. The Committee expects a further pick-up by early adopters in the coming months.

The Committee is also working with ABS to conduct a survey of corporate customers on the use of SGD benchmark rates in banking products, to ensure that various options on product structures and conventions for SORA loans can be provided that will be tailored to meet end customers' needs. This survey is expected to be completed in July 2020.

## Communications and Public Education

Recognising that public communication and outreach is crucial given the wide-reaching implications of the transition, SC-STS adopts a multi-layer strategy in executing its two-pronged Communication and Public Education Programme. The Programme ensures that key stakeholders are kept informed and fully understand the impact and requirements of the transition.

Since late 2019, major banks have published various research articles about the transition on their websites for public access and will continue to provide members of the public up-to-date progress of the transition. Through various media engagement activities, members of the public are also kept informed of key milestones achieved by SC-STS.

More targeted outreach events had been held. In February 2020, the first industry-wide workshop was organised by ABS for its member banks as well as large corporates. This was followed by a [webinar organised by Bloomberg and the Association of Corporate Treasurers \(Singapore\)](#) in early June 2020 which was attended by more than 800 participants from banks, large- and mid-sized companies to discuss challenges, roadmaps, timelines and how the transition to risk-free rates would impact them. The Committee has also reached out to major law firms and accounting firms in Singapore since April 2020, to support Singapore-based companies in their transition journey.



To support over 150 banks in Singapore in this transition, a dedicated online resource centre has been set up by ABS. [Frequently Asked Questions](#) and training materials as well as market convention guidance for derivatives have been uploaded onto this platform for easy access by all banks.

At the end-user level, SC-STS has created client correspondence templates for banks to ensure consistency in their communication with individual clients. Banks have commenced sending out these letters to corporate clients whose bank facilities are impacted by the transition. Many frontline bank staff have been trained to handle customer queries and support affected corporate clients as they transition from SOR to SORA-pegged facilities.



**Note to Editors:**

**The Steering Committee for SOR Transition to SORA**

The Steering Committee for SOR Transition to SORA (SC-STS) 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.

SORA had been identified in the Association of Banks in Singapore (ABS) and the Singapore Foreign Exchange Market Committee (ABS-SFEMC) in August 2019 as the most suitable and robust alternative benchmark for SOR derivatives. SORA has been published since 2005, and is based on transactions in a deep and liquid overnight funding market.

Led by industry, the SC-STS is chaired by Mr Samuel Tsien, Group CEO of OCBC Bank and ABS Chairman. 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 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.