

Banking and Finance, Financial Institutions

# Transition to SORA: Key Timelines to Cease Issuance of SOR-Linked Financial Products & Market Guidance

## Summary

To support the transition from Singapore Dollar ("SGD") Swap Offer Rate ("SOR") to Singapore Overnight Rate Average ("SORA") for a range of financial products such as derivatives, floating rate notes, and business and retail loans (collectively referred to as "**financial products**"), the Steering Committee for SOR Transition to SORA ("**SC-STs**") laid down the following key industry timelines to be observed by banks and financial institutions ("**FIs**"). The SC-STs's [announcement](#) dated 27 October 2020 also lists a set of market guides ("**Guides**") to help FIs adhere to the timelines.

- By end-February 2021, all Domestic Systemically Important Banks ("**D-SIBs**") should be ready to offer a full-suite of SORA-based products to their customers.
- By end-April 2021, all non-DSIB banks should be ready to offer new SORA-based products to their customers, and all lenders and borrowers must cease issuance of SOR-linked loans and securities that mature after end-2021.
- After end-April 2021, SORA is expected to be the de facto floating rate benchmark for all institutional SGD financing activity.
- By end-September 2021, all banks must have substantially reduced gross exposures to SOR derivatives, including centrally cleared interbank transactions.

This Update highlights the salient areas covered by the Guides and action items for FIs in Singapore to take note of.

## Background Information

For decades, the two main SGD interest rate benchmarks in the cash and derivatives markets in Singapore are SOR and Singapore Interbank Offered Rate ("**SIBOR**"). Generally, SOR is used in the pricing of bonds and loans to large institutions with hedging requirements, and as the reference benchmark in SGD derivatives. SIBOR is mainly referenced in banking products for smaller corporate and retail customers.

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In 2019, the Association of Banks in Singapore and Singapore Foreign Exchange Market Committee ("**ABS-SFEMC**") recommended a transition from SOR to SORA, following the impending discontinuation of the London Inter-bank Offered Rate ("**LIBOR**") after end-2021. In March 2020, taking into account feedback from the industry, SC-STS stated that SORA will replace SOR as the new interest rate benchmark for the SGD cash and derivatives markets. Subsequently, a public consultation was conducted in July 2020 recommending the discontinuation of SIBOR and the adoption of SORA. For a summary of this consultation, please refer to our article titled "[ABS, SFMEC and SC-STS Issue Consultation Report on SIBOR Reform](#)" in our NewsBytes (July 2020).

SORA is the volume-weighted average rate of borrowing transactions in the unsecured overnight interbank SGD cash market in Singapore between 8.00 am and 6.15 pm. SORA is administered by the Monetary Authority of Singapore ("**MAS**"). Financial products referencing SORA typically use an average of daily SORA readings over a period, in contrast to SIBOR/SOR based loans which generally use a single reading of SIBOR/SOR for each interest payment period.

### Salient Reference and Action Items from Guides for Transition to SORA

SC-STS issued the following Guides which cover numerous aspects for various market participants to prepare in the widespread adoption of SORA in a range of financial products in the derivatives and cash markets:

- a report titled "[Overview on the Usage of SORA in Loans \(Customer Segments and Preferences\)](#)" ("**Report**") that studies how SORA loans can meet the needs of various customer segments ranging from large corporates (including FIs) to retail customers.
- a [SORA market compendium](#) ("**Market Compendium**") that offers a detailed guide to SORA market conventions across various financial products and spotlights considerations for contractual and technical specifications of SORA products and contractual fallbacks for relevant SOR contracts.
- an [end-user checklist](#) ("**Checklist**") that illustrates key steps for various market participants to effectively implement the transition from SOR to SORA, and from LIBOR to alternative reference rates.

We briefly outline below salient features of each Guide.

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### ***SC-STIS Report***

#### ***(a) Usage of SORA in loans products***

The Report outlines the use of SORA in loan products. It explains that financial products referencing SORA typically use an average of daily SORA readings over a period and that there are two types of averaging methodologies in this regard, the compound averages and simple averages. The Report goes on to say that from an economic perspective, compound interest generally gives a more accurate reflection of the economic costs of borrowing overnight over the specific period and reflects the time value of money more accurately. The compounded averages of SORA is expected to be the main averaging methodology for SORA products, and MAS published Compounded SORA and SORA derivatives using this averaging methodology.

Users of SORA in loans would also have to choose the period to average SORA over. Based on the Report, there are two main conventions to consider, compounding in-arrears and compounding in-advance. The convention to be used will depend on the user's needs.

Please refer to the Report for further details on the usage of SORA in loan products.

#### ***(b) Customer preferences and recommendations on averaging methodology for SORA Products***

Based on surveys commissioned by SC-STIS, the Report offers guidance to present and potential users of floating interest rate products on the appropriate adoption of SORA in loan products based on their needs. For instance, the Report highlights the factors customers find important, such as stability and transparency, and sets out SC-STIS' recommendations. There are various approaches which can be used when applying compounding to SORA. For general directions, end-users (e.g. FIs) may refer to the guide at Exhibit 9 to the Report. Ultimately, end-users should select the approach that best fits their particular requirements, processes and preferences.

FIs and other end-users with present SOR exposures are encouraged to prepare early for the transition and ensure continued access to financing. For the timeline for institutional users of SOR products, please refer to the [SC-STIS transition roadmap](#). For key action items to complete before end-2021, please refer to the Checklist discussed later. The Report should also be read together with the Market Compendium below.

#### ***Detailed guidance and action items on salient issues concerning various financial products***

The Market Compendium offers comprehensive guidance on key issues concerning the transition from the use of SOR to SORA in certain Singapore interest rate financial products, such as: (i) derivatives, (ii) capital markets, (iii) corporate loans, and (iv) consumer products, e.g. retail loans. For each financial product, a dedicated chapter in the Market Compendium sets out the current usage of SOR and

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examines the potential application of SORA, such as the possible market conventions for that financial product (and the preferred one, where there is some industry-specific consensus).

In addition, the Market Compendium addresses how to deal with the occurrence of certain specified events, such as the temporary unavailability of SORA. This may include the implementation of SORA contractual "fallback" provisions. We have briefly covered contractual fallback arrangements in our article titled "[SC-STIS Outlines Role of Fallback Arrangements for SOR Derivatives](#)" in our Newsbytes (September 2020).

For a detailed review of considerations on contractual and technical specifications of SORA products and contractual fallbacks for relevant SOR contracts, please refer to the Market Compendium.

### ***Checklist of action items to be implemented by end April 2021***

The Checklist provides various market participants, such as investment firms and insurers with a list of key steps to effectively implement the transition from SOR to SORA, and from IBOR to alternative reference rates. There are two checklists depending on a business' potential impact from the Inter-Bank Offered Rates. Factors for a business to decide which checklist is applicable include whether the business deals with loans in multiple currencies, derivatives contracts and fixed income securities.

Apart from addressing contractual concerns, FIs must also address other areas such as operational and system changes, staff training and client outreach. For detailed guidance and implementation steps, please refer to the Checklist.

## **Concluding Remarks**

To ensure continued access to key funding markets beyond end-April 2021 when usage of SOR in new cash market contracts will effectively cease, FIs are encouraged to take immediate steps to prepare to shift from SOR to SORA. If you have any queries on the transition to SORA, how it may impact your business, and/or require any assistance to effectively manage the transition, please feel free to contact our team members below who will be happy to assist.

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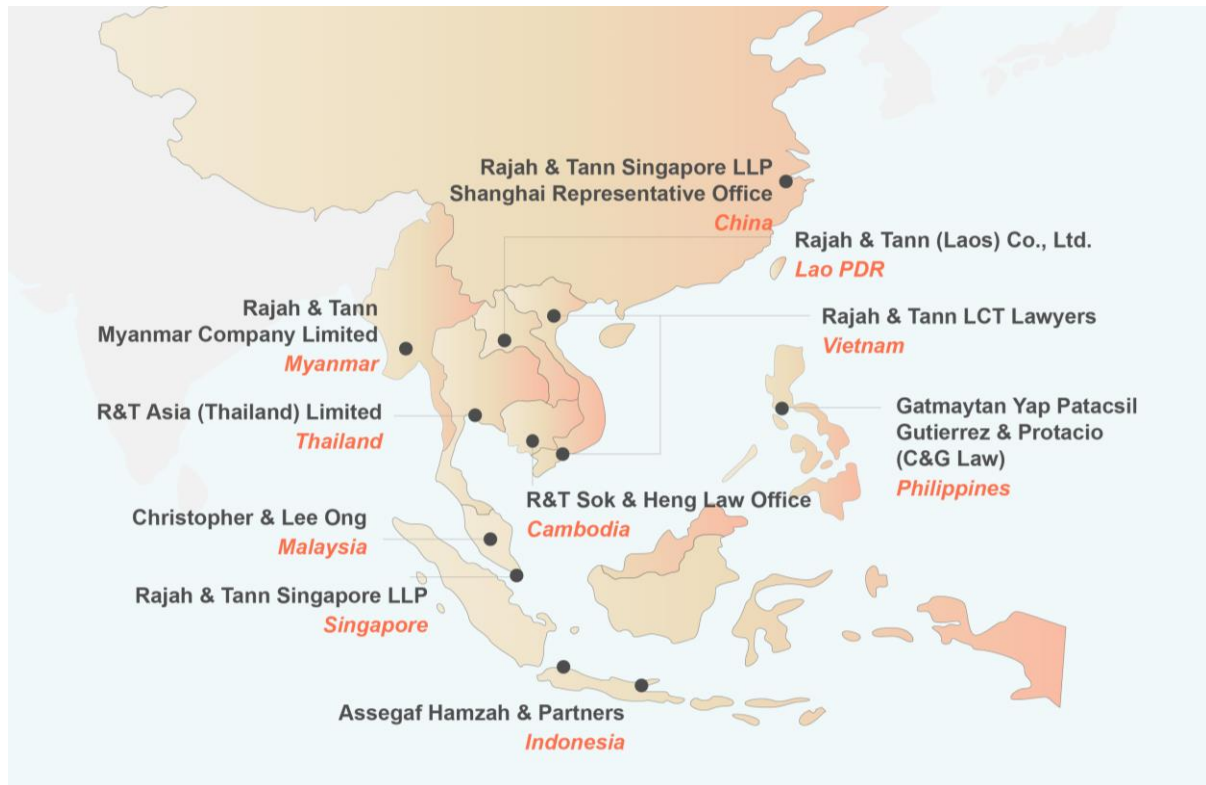
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