

FREQUENTLY ASKED QUESTIONS

GENERAL FAQs

Global Benchmark Reforms

Q1: Why is there a need to transition from SOR to an alternative benchmark rate?

The need to transition from SOR arises from the global reform efforts to improve the robustness and integrity of financial benchmarks¹. As part of this shift, the UK Financial Conduct Authority (FCA), the supervisory authority of LIBOR, has stated that it will no longer compel banks to submit rates used for the calculation of LIBOR after 31 December 2021. This means that LIBOR is expected to be discontinued after end-2021. As SOR utilises the USD LIBOR in its computation, the cessation of LIBOR will directly affect the sustainability of SOR.

In light of these developments, the Association of Banks of Singapore and Singapore Foreign Exchange Market Committee (ABS-SFEMC) released a consultation report that identified the Singapore Overnight Average Rate (SORA) as the alternative interest rate benchmark to SOR, and set out a roadmap for this transition². The consultation closed on 31 October 2019, and the response paper to the consultation was recently released in March 2020. Overall, there was broad support for the selection of SORA as the alternative interest rate benchmark to SOR, and the proposed transition roadmap.

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

Yes, other major economies are also in the process of 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.

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 "Roadmap for Transition of Interest Rate Benchmarks: From SGD Swap Offer Rate (SOR) to Singapore Overnight Rate Average (SORA)" dated 30 August 2019: <https://abs.org.sg/docs/library/list-of-sc-stsmembers.pdf>

	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 Transition of SORA

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

SC-STS was established by the Monetary Authority of Singapore (MAS) 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.

SC-STS is chaired by the current ABS Chairman, Mr Samuel Tsien (Group CEO of OCBC Bank), and provides strategic direction on industry initiatives to develop new products and markets based on SORA. It is also engaging with 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.

Q4. What are the objectives of SC-STS?

The key objective of SC-STS is to provide strategic direction on industry initiatives to develop new products and markets based on SORA, and to ensure that there is a smooth transition. SC-STS will consult and engage relevant stakeholders proactively in developing key market guidance (e.g. on fallbacks, market conventions, transition approaches, etc), make these available to relevant stakeholders, and support banks' efforts to help end-customers make informed decisions.

Transition from SOR to SORA

Q5: Can we retain SOR beyond end-2021?

The possibility of retaining SOR by replacing the USD LIBOR component in the SOR calculation methodology with another USD interest rate benchmark was studied in detail. However, this was considered challenging because SOFR, the replacement for USD LIBOR, is an overnight rate and cannot be easily used to produce a forward-looking term rate for 1-month, 3-month and 6-month SOR benchmarks. There was also broad industry consensus that we should move

away from continued reliance on a USD interest rate benchmark in the computation of a key SGD interest rate benchmark, and to explore the adoption of a benchmark which would be more reflective of domestic funding conditions.

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

SORA is published daily by the MAS and is a robust benchmark underpinned by a deep and liquid overnight interbank funding market. It is published on the MAS website daily and has been accessible at no charge since 1 July 2005. The historical series can be downloaded from the MAS website here. at <https://secure.mas.gov.sg/dir/domesticinterestrates.aspx>

Q7: Why did ABS-SFEMC not replace SOR with SIBOR which will be enhanced soon?

While SIBOR is well understood by the market, ABS-SFEMC assessed that there were significant risks in concentrating all SGD derivatives and cash market products on the SIBOR benchmark.

First, the volume of transactions underpinning SIBOR is significantly smaller than the volume of transactions in the overnight interbank funding markets which underpins SORA.

Second, even with the proposed measures to enhance SIBOR by anchoring panel submissions to eligible wholesale funding transactions, the enhanced SIBOR would be vulnerable to a discontinuation of USD LIBOR as it relies on SOR as an input in its waterfall methodology.

Third, given the direction of global benchmark reforms, structural shifts in banks' key sources of funding, and the move to have derivatives markets reference overnight interest rate benchmarks, ABS-SFEMC viewed that adopting SORA as the benchmark for the SGD derivatives market would align the SGD market with international conventions and best practices. This will support the continued participation of global institutions and investors in the SGD market.

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

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

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

The use of overnight interest rate benchmarks in financial products is increasing in other major currency areas. These include futures and Overnight Indexed Swaps (OIS) referencing SOFR and SONIA. Market participants that have experience with such products should find the adoption of SORA-based derivatives to be relatively easy.

Globally, the use of overnight interest rate benchmarks (i.e. risk free rates or RFR) has been gaining traction in many key jurisdictions, including the UK and US. While there were some initial concerns around the volatility of SORA on a daily basis, it was recognised that financial products which reference overnight rates typically use an average rate over a period, and not a single day's rate. For example, a SGD OIS or loan contract could be settled against the 3-month or 6-month compounded average SORA. As seen in the chart below, this compounded average SORA which financial contracts would reference, is more stable than the 6-month SOR, which most SGD derivatives currently reference.

There are also several key benefits in using compounded SORA in cash markets:

- Such rates constructed from deep underlying overnight funding markets, are very robust and not susceptible to manipulation.
- The averaging effect of compounded SORA rates would result in more stable rates, compared to forward-looking term rates, which are exposed to idiosyncratic market factors on a single day's fixing, such as quarter/year-end volatility.
- With the SORA derivatives market moving towards compounded rates (in line with derivatives markets globally), having cash products pegged to compounded rates allows for more effective hedging as the basis risk between cash and derivatives markets is minimised.

For illustration, please see below some historical data on SOR, SORA and SIBOR

