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The Transition from SOR to SORA

With the UK Financial Conduct Authority's announcement in July 2017 that it will no longer compel or encourage panel banks to provide quotations for the purposes of calculating the London Inter-bank Offered Rate ("**LIBOR**") after end-2021, the discontinuation of LIBOR in the near future has become a certainty, raising further questions on the fate of similar financial benchmarks adopted by markets worldwide and those which depend on LIBOR in its calculations. In Singapore, there are two key SGD interest rate benchmarks in the cash and derivatives markets, namely, the Swap Offer Rate ("**SOR**") and the Singapore Inter-bank Offered Rate ("**SIBOR**"), whose longevities are being called into question. USD-LIBOR is a critical component in the calculation of SOR; and SIBOR would also indirectly be affected as SOR is referenced as an input in its waterfall methodology.

The Association of Banks in Singapore and the Singapore Foreign Exchange Market Committee (collectively, "**ABS-SFEMC**") established a working group in November 2018 to examine the impact of the discontinuation of LIBOR on SOR and has since published the Roadmap for Transition of Interest Rate Benchmarks on 30 August 2019 which sets out possible alternatives to SOR. In line with the increasing use of overnight interest rate benchmarks in other major currencies, ABS-SFEMC identified and recommends the Singapore Overnight Rate Average ("**SORA**") as the most suitable and robust replacement for SOR moving forward (over alternatives such as a reform of SOR or adopting an enhanced SIBOR) in a variety of cash market products, including loans, floating rate notes/bonds, mortgages and other cash market instruments.[1]

SORA reflects the volume-weighted average rate of all Singapore Dollar overnight cash transactions brokered in Singapore between 9.00 a.m. (Singapore time) to 6.15 p.m. (Singapore time) and is currently published daily by the Monetary Authority of Singapore on its website at around 6.30 p.m. (Singapore time). To combat volatility in day-to-day fluctuations, a compounded average SORA may be used (which ABS-SFEMC observes is more stable than 6-month SOR) instead of daily rates. In view of the diverse range of institutions and products which currently use SOR, ABS-SFEMC proposes a phased approach for the transition from SOR to SORA; for loan markets, ABS-SFEMC encourages the direct usage of SORA from the first-half of 2020, with a forward-looking benchmark based on derivatives referencing SORA (called "term-SORA") being developed for use from early 2021.

Going forward, institutions are encouraged to expressly address the consequences of LIBOR (and, by extension, SOR) being unavailable after 2021. In the Singapore loan market, the focus to date has been on increasing flexibility in loan documentation for parties to agree on a replacement screen rate to be adopted in the future. To this end, loan documentation in Singapore has increasingly incorporated the "Replacement of Screen Rate" clause recommended by the Loan Market Association (LMA), which is designed to qualify "all-lender" matters by providing, amongst others, that if the

[1] Please refer to ABS-SFEMC's report on the transition from SOR to SORA, available here: https://abs.org.sg/docs/library/consultation-report-on-roadmap-for-transition-of-interest-rate-benchmarks-from-sor-to-sora.pdf, for more details.

methodology, formula or other means of determining the screen rate has materially changed or the supervisor of the administrator of the screen rate publicly announces that the screen rate has been or will be permanently or indefinitely discontinued, the group of lenders constituting the "Majority Lenders" (based on the agreed threshold under the loan document) and the borrower may agree on an alternative screen rate to be adopted (as otherwise, any amendment relating to interest rates are usually all-lender reserved matters). The inclusion of such clause should be considered by both borrowers and lenders alike, given that the unavailability of screen rates is a typical trigger for market disruption, which usually entitles lenders to substitute its own cost of funding as the floating rate benchmark pending negotiated agreement on a substitute benchmark between all parties. For loan facilities whose documents do not explicitly document such replacement mechanisms, the default amendment procedures in accordance with the terms of the loan documentation will need to be followed to adopt the relevant replacement benchmark rate in due course.

Should you require further information on this or any assistance with the amendments to be made to your current loan documentation, you may wish to contact the partner at WongPartnership LLP whom you normally work with or the following partner:

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