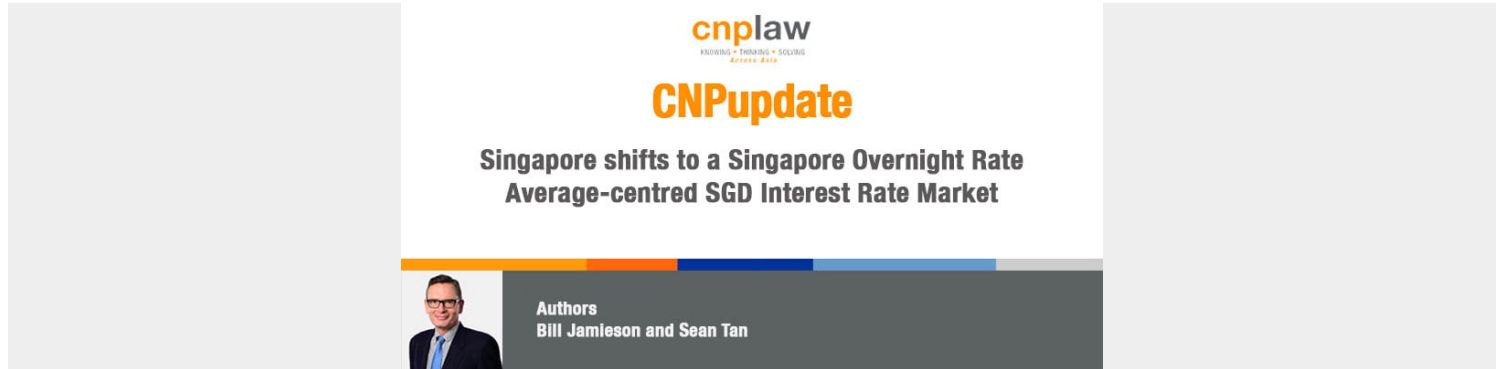


SINGAPORE SHIFTS TO A SINGAPORE OVERNIGHT RATE AVERAGE-CENTRED SGD INTEREST RATE MARKET

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As part of global efforts on interest rate benchmark reforms, the UK Financial Conduct Authority (“FCA”) announced in July 2017 that the London Interbank Offered Rate (“LIBOR”) will not compel banks to submit rates used to calculate the LIBOR by end-2021. Consequently, the Singapore Dollar Swap Offered Rate (“SOR”), which utilises the US Dollar LIBOR in its computation, will be affected by this change and in August 2019, the Singapore Overnight Rate Average (“SORA”) was identified as the replacement interest rate benchmark to the SOR.

The Steering Committee for SOR Transition to SORA (“SC-STs”) has, for the first half of 2020, made good progress in developing SORA markets. Efforts were made to establish key SORA market conventions and infrastructure, enhancing industry and system readiness, and piloting new SORA products that cater to customers’ needs.

SORA as the alternative interest rate benchmark to SOR

The Association of Banks in Singapore and Singapore Foreign Exchange Market Committee (“ABS-SFEMC”) prepared a consultation report identifying SORA as the alternative interest rate benchmark to SOR and proceeded to chart a roadmap for this transition. In 2017, a new waterfall methodology for SGD Singapore Interbank Offered Rate (“SIBOR”) was initiated. Transitional testing for this was conducted over the span of a year, from July 2019 to June 2020 which showed that the resulting rate – called the New Polled

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Benchmark – was relatively robust but had noticeable differences in volatility compared to the SIBOR.

The ABS-SFEMC noted that this posed two issues:

1. the more volatile nature of the New Polled Benchmark would make it more difficult for end-user acceptance, and
2. the difference characteristics of the New Polled Benchmark will mean that it cannot directly replace SIBOR in existing financial contracts.

Ensuring broad-based adoption of SORA-centred SGD interest rate market by market participants

The SC-STS's consultation report concluded that it will be beneficial in the long run for SGD financial markets to shift to a SORA-centred SGD interest rate market instead, which will help facilitate transparency and easier comparison of loan pricing, avoid market fragmentation and promote the development of deep and efficient SGD financial markets. Furthermore, given that SORA has been published by the Monetary Authority of Singapore ("MAS") since July 2005, this provides a long historical time series which facilitates analysis for risk management and pricing purposes by market participants. Also, the choice of SORA as the reference benchmark for SGD interest rate derivatives is also aligned with the global shift for derivative markets to reference near risk-free rates. These factors would be important in ensuring broad-based adoption by market participants.

Transitioning from SOR to SORA over two years

The ABS-SFEMC anticipates a phased transition from SOR to SORA over the span of two years, beginning with the deepening of new SORA-based markets, followed by the transition of SOR-based legacy contracts. This is aimed at fostering a strong industry-wide cooperation and coordination on various initiatives, such as developing industry best practices and market conventions to promote the adoption of SORA-based products in financial markets, and reaching out to educate various end-users in order to raise awareness. In this regard, the MAS has appointed the SC-STS to lead and provide strategic direction to develop new products and markets based on SORA, and the SC-STS will serve as the key coordinating platform to engage relevant stakeholders involved in this transition.

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