SINGAPORE INDUSTRY FAQs

Q&As on broad context and the changes

1. **What changes has the Association of Banks (ABS) and the Singapore Foreign Exchange Markets Committee (SFEMC) recommended for the benchmark contributions in Singapore?**

    - The ABS and the SFEMC have led an initiative to enhance the robustness, transparency and efficiency of the benchmark contribution process in Singapore.

    - With this initiative, Singapore will be one of the first countries in the world to implement changes to the way benchmarks are calculated. It will also be aligned to the latest international standards set forth in consultation papers issued by the International Organisation of Securities Commissions (IOSCO).

    - In line with Singapore's status as a leading financial centre, the key guiding principles for the changes are:

        1. To calculate benchmarks based on a "traded" – that is, by using market trading data, as far as possible. This is a shift from the current practice where benchmarks are primarily calculated based on "surveyed" methodology.

        2. To enhance the administration and governance processes for benchmarks with appropriate controls and supervision aligned to evolving global standards.

        3. To eliminate benchmarks that do not have meaningful market demand.

    - The ABS and SFEMC also recognise that we will have to continue to work together to contribute to the further development of these benchmark processes as international consensus continues to evolve.

2. **What do you mean by these changes increasing the transparency of the existing process?**

- Singapore will be a leading market in shifting the way in which the majority of benchmarks are calculated from the current “surveyed” methodology to a “traded” methodology. With a “traded” methodology, benchmarks are calculated from market trading activity instead of from surveyed submissions.

- In addition, the new measures include the enhancement of administration and governance processes for benchmarks with appropriate controls and supervision.

- However, the ABS and SFEMC also recognise that they will have to continue to work together to contribute to the further development of these benchmark processes as international consensus continues to evolve.

3. **When did the ABS and SFEMC start work on this initiative and who has been involved?**

- This initiative has been ongoing since 2012 and reflects the work by the ABS and the SFEMC to examine the benchmark contribution process.

- It also incorporates the latest industry trends, and international standards set forth in IOSCO publications.

4. **What specific changes will be made?**

- Presently, there are 11 benchmarks quoted in Singapore. Of these, four will be discontinued and two will be replaced with benchmarks in other jurisdictions.

- Of the five remaining benchmarks, going forward, four will be calculated using actual market transactions instead of by surveys. They are: SGD Spot FX, THB Spot FX, IDR Spot FX, and SGD SOR (overnight, 1-month, 3-month and 6-month).

- The use of a “traded” approach will ensure a direct and automated link between market trading activity and benchmark computation.

- Only SGD SIBOR, which the majority of mortgages in Singapore are pegged to, will continue to be calculated by reference to surveys from banks. This is because unlike the FX markets, SGD SIBOR rates are a reflection of inter-bank borrowing costs and these costs differ across banks. Although SGD SIBOR remains a surveyed benchmark, going forward, it will be subject to enhancement and regular reviews. As far as possible, banks will be required to prioritise actual transactions as the basis for their submissions.

- The shift to a “traded” approach for the various spot FX rates and SGD SOR is not expected to result in increased costs for users of these benchmarks, who are primarily professionals and corporates. The SFEMC has conducted a “parallel” test of the methodology based on traded data and results showed very small variances from previous published FX benchmarks.

- As SGD SIBOR will continue as a surveyed benchmark with improved governance, customers with mortgages pegged to SGD SIBOR will not face increased borrowing costs. Customers will be advised by their banks if they need to take any action.

5. Why don’t you also base the SGD SIBOR on a “traded” methodology?

- As SGD SIBOR reflects each individual bank’s inter-bank borrowing cost, banks must deal directly with each other. This is unlike the inter-bank spot FX market where all market participants are trading the same instruments.

- However, we have strengthened governance around the survey process and banks will be required to prioritise actual transactions as the basis for their submissions.

- In particular, the ABS and SFEMC are implementing the following initiatives:
  - setting out enhanced governance standards for market participants in a new chapter of the Blue Book;
  - refreshing the panel of contributors to the SGD SIBOR benchmark based on various factors reflecting their presence in the Singapore market;
  - establishing a new entity, ABS Benchmarks Administration Co. Pte Ltd, to carry out benchmark administration, consistent with developments internationally; and
  - forming an oversight group to supervise benchmark administration and ensure independence, with representation from the following independent professionals appointed by ABS:
    - Thean Lip Ping - Chairman (former Judge of Appeal)
    - Fang Ai Lian (Chairman, Great Eastern Holdings Limited)
    - Mak Yuen Teen (Associate Professor, NUS Business School)
    - Seah Seng Choon (Executive Director, Consumer Association of Singapore).

- We will continue to regularly review the methodology and governance for SGD SIBOR in line with developments globally.

Q&As on the impact for retail customers

6. Did I have to pay more interest on my loans/mortgages in the past due to the inappropriate conduct of the traders cited in the MAS review?

- The ABS and the SFEMC have conducted a series of backtesting to analyse this. These include backtesting of historical data to calculate what benchmark rates would have been if they were determined from actual transactions. Based on these tests, as far as they can tell, customers would not have experienced any impact on their retail loans (including mortgages) and corporate loans.

7. **Will I have to pay more interest on my loans/mortgages in the future with these new changes being implemented?**

    - Based on an analysis of the "traded" methodology against historical data, this initiative will not result in increased borrowing costs for retail or wholesale banking customers.

8. **Will the interest rates on my deposits be affected?**

    - No your interest rates on your deposits will not be affected as the deposit interest rates are determined by banks based on many factors and do not depend on any benchmarks.

9. **How will my non-deposit investments be affected with these changes? Will I lose money?**

    - Non-deposit investments can vary considerably depending on whether you receive interest or pay interest, and depending on the formula used for the calculation of such payments.
    - With respect to the benchmark component of such investments (eg. the SIBOR component), it is fair to say that we do not expect any material change.

10. **When will these changes be implemented and will I need to do anything during this time?**

    - The changes will be introduced in a phased approach later this year so that you can fully understand these changes.
    - You will be advised by your bank if any required action is required on your part.

Q&As on the impact for wholesale customers

11. Moving forward, will I as a corporate customer be paying more with the new "traded" methodology?

- The simple answer is no.

- Based on an analysis of the "traded" methodology against historical data, this initiative will not result in increased borrowing costs for retail or wholesale banking customers.

- Replacing USD SIBOR with USD LIBOR aligns with the larger global USD market.

- This change from USD SIBOR to USD LIBOR will also correspondingly be incorporated into SGD SOR since USD SIBOR was previously a component of SGD SOR.

- For SGD SIBOR, the approach remains the same as before ("surveyed") so no change arises.

12. Will there be an operational impact on corporate customers with the new "traded" methodology processes?

- While the new methodology better aligns with the settlement convention for interest rate hedging, there can be some operational impact for corporate customers.

- USD LIBOR publishes after business hours in Asia. As such, banks will move to an international T+2 drawdown convention for loans referenced to USD LIBOR benchmarks. However, exceptions can be negotiated with customers, directly with their banks, to cover commercial considerations such as same-day drawdown for trade finance facilities.

- Since USD SIBOR is a component of SGD SOR, the change to USD LIBOR will also result in a later benchmark publication time of SGD SOR. Again, banks will expect to move to an international T+2 drawdown convention but with exceptions being made for customers' commercial concerns. These exceptions should be negotiated by customers with their banks.

13. Given the above, what are the implications, especially for corporate customers, of the removal of a number of FX benchmarks?

- Based on available data, we have not found a significant number of transactions in the market referenced to those benchmarks. If there is demand, we will try to meeting that demand, but conversely if there is no demand, we will also recognise it.

14. What is the timeline for transiting to the new measures? What do the corporate customers have to do during the transition?

- Please refer to the ABS website at http://www.abs.org.sg/financial_faq_benchmarks.php for the transition timelines.

- For FX market participants, they can sign up to the ISDA multilateral protocol referred to on the SFEMC website at www.sfemc.org.

- For loan customers, customers will be advised by their banks if they need to take any action.

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