SIBOR REFORM AND THE FUTURE LANDSCAPE FOR SGD INTEREST RATE BENCHMARKS

Response to Feedback

11 December 2020

The Association of Banks in Singapore

Singapore Foreign Exchange Market Committee

Steering Committee for SOR & SIBOR Transition to SORA

PREFACE AND DISCLAIMER

This paper sets out the response to feedback that has been received on the report, *SIBOR Reform and the Future Landscape for SGD Interest Rate Benchmarks*, published on 29 July 2020. In particular, this paper sets out specific timelines for the discontinuation of the SGD Singapore Interbank Offered Rates (**"SIBOR"**) by end-2024.

The Association of Banks in Singapore (**"ABS"**), ABS Benchmarks Administration Co Pte Ltd (**"ABS Co."**), the Singapore Foreign Exchange Market Committee (**"SFEMC"**), the Steering Committee for SOR & SIBOR Transition to SORA (**"SC-STS"**), and any persons or entities acting on their behalf, do not give any warranties or representations concerning any data or information contained herein.

Contents

1 Background 4

2 Feedback on Discontinuation Timeline for SIBOR 5

2.1 6-month SIBOR 5

2.2 1-month and 3-month SIBOR 6

3 Feedback on Phased Transition Approach 8

4 Suggestions on Further Work Areas 9

4.1 SIBOR Transition 9

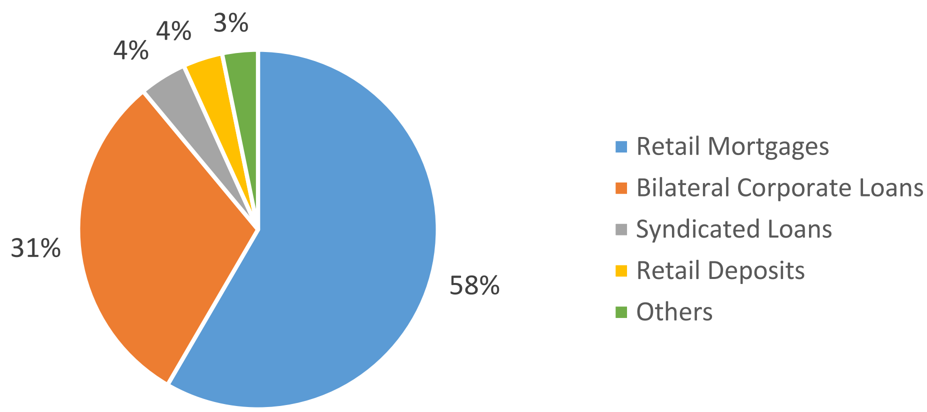
4.2 SORA Usage 10

5 Conclusion 13

1 Background

1.1 SIBOR is a key interest rate benchmark in Singapore that is administered by ABS Co., with Refinitiv as the calculation agent. SIBOR is used mainly in retail mortgages and bilateral corporate loans, particularly loans to small and medium-sized enterprises ("**SMEs**"), and to a smaller extent in syndicated loans, and retail deposits (see Exhibit 1). The total stock of outstanding SIBOR contracts is estimated to be about S$90 billion[1].

Exhibit 1: Composition of SIBOR exposures[1]



1.2 On 29 July 2020, ABS, SFEMC, and SC-STS jointly issued a report on *SIBOR Reform and the Future Landscape of SGD Interest Rate Benchmarks* ("**Report**"). The Report recommended the discontinuation of SIBOR, to facilitate a transition to the Singapore Overnight Rate Average (**"SORA"**) as the main interest rate benchmark for SGD financial markets. The proposed shift is expected to support a deepening of SORA markets, result in more transparent loan market pricing for borrowers, and more efficient risk management for lenders.

1.3 Feedback was received from a total of 74 respondents, comprising 48 banks and 26 non-bank respondents, and was reviewed by ABS, SFEMC, and SC-STS. This paper summarizes the joint industry response to the feedback, and sets out a roadmap for the transition from SIBOR.

1.4 ABS, SFEMC, and SC-STS thank all respondents for their feedback.

---

[1] Estimates by the SFEMC SIBOR+ Working Group ("**WG**"). Established in 2015, the WG developed proposals to enhance SIBOR, and comprises representatives from DBS Bank Ltd, Oversea-Chinese Banking Corporation Limited, United Overseas Bank Limited, Citibank N.A., The Hong Kong Shanghai Banking Corporation Limited, Standard Chartered Bank, and ABS Co., and is supported by the MAS.

2 Feedback on Discontinuation Timeline for SIBOR

2.1 6-month SIBOR

2.1.1 **Most respondents agreed with the proposal to discontinue 6-month SIBOR when or shortly after 6-month SOR is discontinued after end-2021**. Respondents cited the low usage and the lack of underlying activity underpinning this benchmark tenor as key reasons to discontinue 6-month SIBOR before the 1-month and 3-month SIBOR.

2.1.2 However, a few respondents preferred a later discontinuation date. One respondent proposed that 6-month SIBOR should be discontinued at least three months after 6-month SOR's discontinuation, and several respondents proposed that 6-month SIBOR should be discontinued at the same time as the 1-month and 3-month SIBOR – i.e. in three to four years' time. These respondents highlighted that banks may face operational resource constraints if they have to prepare for the simultaneous discontinuation of 6-month SIBOR and 6-month SOR amidst other industry priorities, such as managing the discontinuation of LIBOR, and winding down of the Extended Support Scheme[2]. Aligning the discontinuation dates for all three SIBOR tenors could also simplify client communications.

Response

2.1.3 ABS, SFEMC and SC-STS noted the strong support to discontinue 6-month SIBOR when or shortly after 6-month SOR is discontinued after end-2021. This is aligned with its low market usage and the lack of transactions underpinning this benchmark tenor:

- The usage of 6-month SIBOR is significantly lower than the usage of 1-month and 3-month SIBOR.
- It is estimated[3] that panel banks have on average less than one relevant transaction per fortnight to underpin their 6-month SIBOR contributions.

---

[2] https://www.abs.org.sg/sme/relief-measures/ess

[3] As presented in Exhibit 1 of the Report, panel banks only relied on transactions 8.2% of the time for the 6-month tenor in the transitional testing of the new waterfall methodology for SIBOR, which allowed for an expanded underlying market including interbank transactions, corporate deposits and other unsecured funding transactions. This translates to less than 1 submission in two weeks, assuming five business days a week. SIBOR, with a narrower definition focusing only on interbank lending transactions, would have even fewer transactions underpinning benchmark submitters' rates.

2.1.4 These considerations similarly weigh against an extended timeline to discontinue 6-month SIBOR after 6-month SOR is discontinued. Nevertheless, taking into account that banks may face operational resource constraints if they have to prepare for the simultaneous discontinuation of both benchmarks, **6-month SIBOR will be discontinued three months after 6-month SOR is discontinued**.

2.1.5 Given the linkages between the discontinuation of 6-month SIBOR viz 6-month SOR and 6-month LIBOR, ABS, SFEMC, and SC-STS will monitor global timelines for the planned discontinuation of USD LIBOR[4], and assess the implications on SOR and SIBOR discontinuation to ensure that the discontinuation of 6-month SIBOR is not excessively delayed.

2.2 1-month and 3-month SIBOR

2.2.1 **Most respondents agreed with the proposal to discontinue the 1-month and 3-month SIBOR, three to four years from the date of announcement**. A number of respondents noted that this would provide time for shorter-dated corporate loan contracts to mature, and for longer-dated retail and SME mortgage loans to exit their lock-in periods.

2.2.2 A small number of respondents proposed alternative timelines for 1-month and 3-month SIBOR discontinuation. In particular, one respondent suggested to discontinue these SIBOR tenors in about two years, if the lock-in periods for new SIBOR contracts could be restricted to two years or shorter. Another respondent requested for 1-month and 3-month SIBOR to be discontinued only in five years or more, due to SIBOR's usage in loans for buildings under construction (**"BUC loans"**). The disbursement of BUC loans is dependent on the pace at which construction projects are completed. While most BUC loans are likely to be fully disbursed in four years, delays in construction, which could occur due to the current COVID-19 situation, could delay the disbursement of some loans beyond the four-year period.

Response

2.2.3 ABS, SFEMC, and SC-STS acknowledge the strong support for the proposal to discontinue 1-month and 3-month SIBOR in three to four years.

2.2.4 ABS, SFEMC and SC-STS have reviewed the feedback on alternative timelines for the discontinuation of these SIBOR tenors. In particular, the committees understand that there

---

[4] On 4 December 2020, ICE Benchmark Administration ("IBA"), the benchmark administrator for LIBOR, published its consultation on the discontinuation timeline for USD LIBOR, in particular for the 6-month USD LIBOR to be discontinued only on 30 June 2023. The consultation will close on 25 January 2021.

are several implications to lenders and borrowers if a BUC loan referencing SIBOR is not fully disbursed at point of discontinuation.

- The loan systems of most lenders are not currently set up to allow for a change in the reference rate before full disbursement of a BUC loan, and systems changes or other manual workarounds would be required.
- Under current contractual terms, borrowers could incur penalty fees if they want to refinance or terminate their BUC loans prior to full disbursement. This could apply if borrowers choose to reject the replacement loan packages offered to them by their lenders at the point of SIBOR discontinuation.

2.2.5 However, ABS, SFEMC, and SC-STS have assessed that the potential complications from partially disbursed SIBOR BUC loans can be managed.

- The industry's exposure to SIBOR BUC loans is not large. Such loans account for less than 10% of the total stock of outstanding SIBOR contracts (in S$ nominal amounts). Moreover, only a subset of all SIBOR BUC loans is at risk of not being fully disbursed by the time SIBOR is discontinued i.e. those that are entered into more recently.

- The key lender banks in SC-STS have also indicated a willingness to waive the relevant penalty fees if borrowers refinance with the same bank.

Overall, it is not practical to premise the discontinuation of 1-month and 3-month SIBOR on the full disbursement of all SIBOR BUC loans, given the considerable uncertainty on when this might happen.

2.2.6 As such**, 1-month and 3-month SIBOR will be discontinued by end-2024**. This is aligned with the proposal to discontinue these tenors in three to four years, while providing additional time for disbursements of SIBOR BUC loans.

2.2.7 ABS, SFEMC, and SC-STS encourage bank lenders to avoid adding to the stock of SIBOR BUC loans, which will give rise to downstream transition implications. Where it remains necessary to offer such loans, banks should clearly highlight the implications if the loan is not fully disbursed when SIBOR is discontinued (including the circumstances under which refinancing penalty fees will apply).

3 Feedback on Phased Transition Approach

3.1 **Most respondents agreed for the SIBOR transition to take place after the industry has substantially completed the SOR-to-SORA transition in 2021**. In addition, one respondent encouraged SC-STS to build on the current benchmark transition momentum by starting the SIBOR transition immediately after the SOR-to-SORA transition. Another respondent proposed for both the SOR and the SIBOR transition to take place concurrently, so that it is clear to all market participants that SIBOR is not an alternative to SOR.

<u>**Response**</u>

3.2 ABS, SFEMC, and SC-STS acknowledge the strong support for the proposal to implement the transition from SOR and SIBOR in phases, i.e. to first focus on the more urgent SOR-to-SORA transition and development of new SORA markets, before proceeding with the SIBOR transition.

3.3 Given significant overlap in the areas of work for the SIBOR-to-SORA transition and the on-going SOR-to-SORA transition, MAS has expanded the terms of reference of the SC-STS to include the SIBOR-to-SORA transition.[5] This will allow for continuity in the industry's efforts on benchmark transition, and support a smooth transition from both SOR and SIBOR, to SORA. In line with the phased transition approach, MAS will also review SC-STS' structure when the SOR transition is substantially completed, to ensure appropriate representation for overseeing the SIBOR transition.

3.4 The SC-STS will integrate the work on SIBOR-to-SORA transition with its current roadmap for SOR-to-SORA transition, such that **the transition of legacy 1-month and 3-month SIBOR contracts will take place after the key SOR-to-SORA initiatives have been substantially completed**.

[5] https://www.mas.gov.sg/news/media-releases/2020/MAS-Expands-Mandate-of-Industry-Steering-Committee-to-Drive-SIBOR-Transition

4 Suggestions on Further Work Areas

4.1 SIBOR Transition

4.1.1 Some respondents requested industry guidance to support the transition of existing SIBOR contracts. A few respondents requested a formal nomination of a replacement rate and applicable spread, to facilitate the transition of legacy SIBOR contracts. One respondent highlighted that borrowers should not see their interest cost increase due to the transition.

4.1.2 Some respondents requested industry timelines to cease all usage of SIBOR in new contracts, given its pending discontinuation. This would avoid adding to the stock of SIBOR contracts that would have to be transitioned subsequently.

4.1.3 A few respondents asked if replacement loan packages would be treated as a refinancing of property loans, and whether this would consequently affect the computation of customers' Total Debt Servicing Ratio ("**TDSR**") under MAS Notices 645, 1115, 831 and 128 for the refinancing of investment property loans.

Response

4.1.4 **ABS, SFEMC, and SC-STS agree that the transition approach from SIBOR should be fair and sustainable for all stakeholders**. Given the large number of contracts that need to be transitioned from SIBOR, the approaches should also be practical to implement. On-going discussions on the transition approach are taking place in SC-STS for the SOR-to-SORA transition, and these will similarly be the focus for the SIBOR-to-SORA transition. SC-STS plans to issue market guidance in 2021 on approaches for the SOR-to-SORA transition, and will likewise look to provide **market guidance in 2022/2023 on possible approaches for the transition of legacy 1-month and 3-month SIBOR contracts**, which comprise the main bulk of SIBOR contracts.

4.1.5 The transition of legacy 6-month SIBOR contracts is of a smaller scale and therefore more easily managed. Similar industry transitions had been carried out in the past, e.g. when 2-month and 9-month SIBOR were discontinued in 2013, and the planned discontinuation of 12-month SIBOR in 2020. Lenders should offer appropriate replacement packages and transition terms, including SORA-based replacement packages, if available.

4.1.6 ABS, SFEMC, and SC-STS also agree that it would be important to cease further use of SIBOR in new contracts as soon as possible. This will reduce the amount of outstanding SIBOR contracts when SIBOR is discontinued. **This will also signal clearly that SIBOR is not an appropriate alternative when transitioning out of SOR**. By transiting from SOR to SIBOR, customers would have to undergo another transition when SIBOR is discontinued. This is not desirable and is not in the customer's interest.

4.1.7 **SC-STS plans to provide market guidance in 1H 2021 on an appropriate timeline to cease usage of SIBOR in new contracts**.

- The aim, as with the recent announcement of cessation timelines for new usage of SOR[6], would be to provide lenders and borrowers **advance notice of at least six months from the date of announcement to the cessation of SIBOR usage in new contracts**.
- In setting the timeline, the SC-STS will consider the **state of readiness of SORA markets** – particularly the usage of SORA in retail and SME loan markets where SIBOR is widely used currently. SORA usage is expected to grow in scale in 1H 2021, as Domestic Systemically Important Banks ("**D-SIBs**") and other banks in Singapore offer a full suite of SORA-based products to their customers by end-February 2021 and end-April 2021, respectively.

4.1.8 On TDSR computation, ABS, SFEMC, and SC-STS have clarified with MAS that the **offering of replacement loan packages by the same bank to affected borrowers will not be regarded as a refinancing of property loans under this one-off exercise**. Correspondingly, the property loan rules, such as the computation of TDSR for the refinancing of investment property loans, will not be applicable. Nevertheless, the prevailing refinancing rules will apply to any subsequent refinancing undertaken by such borrowers. As good practice, the key features of the replacement loan packages offered to affected borrowers, including applicable fees and charges, should be highlighted.

4.2 SORA Usage

4.2.1 Feedback provided by respondents included the following:

- Suggestions to improve pricing in SORA products, such as making SORA the main reference rate for Credit Support Annexes or stipulating a bid-ask threshold for SORA derivatives trading;
- Further guidance or consultation on market conventions (e.g. swaptions); and

---

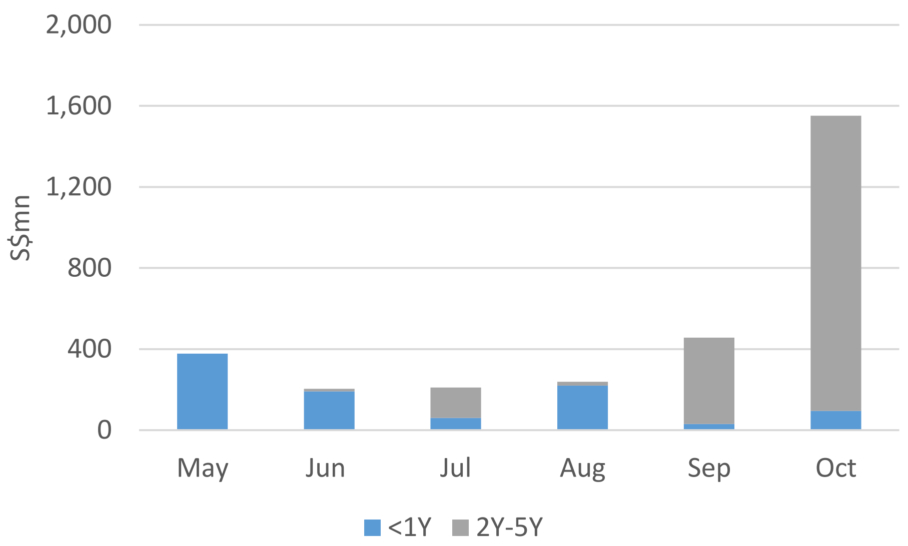
[6] https://abs.org.sg/docs/library/report-on-setting-market-guidance-on-cessation-of-new-sor-originations-timelines.pdf

- Clarity on the timeline for term-SORA[7] publication.

Response

4.2.2 **Liquidity of SORA markets**. SC-STS has implemented a number of initiatives in the past two years to deepen the liquidity of SORA markets. In particular, SORA derivatives trading has picked up significantly in recent months albeit from low levels (Exhibit 2), and SC-STS expects activity to grow steadily in 2021. Looking ahead, SC-STS will continue to deepen the liquidity of SORA markets through industry initiatives.

Exhibit 2: Monthly SORA derivatives turnover[8]



4.2.3 **Market conventions**. SC-STS has published a market compendium[9] in October 2020, covering conventions for commonly used products such as loans and floating rate notes. SC-STS will explore developing market conventions for other types of financial products that are widely-used by market participants.

[7] While the SC-STS is exploring the development of a term interest rate benchmark based on SORA derivatives, or "Term-SORA", its feasibility will depend on the existence of a deep and liquid SORA derivatives market, which would take time to develop.
[8] MAS estimates of monthly turnover for SORA overnight indexed swaps and SOR-SORA basis swaps.
[9] https://abs.org.sg/docs/library/sora-market-compendium-on-the-transition-from-sor-to-sora.pdf

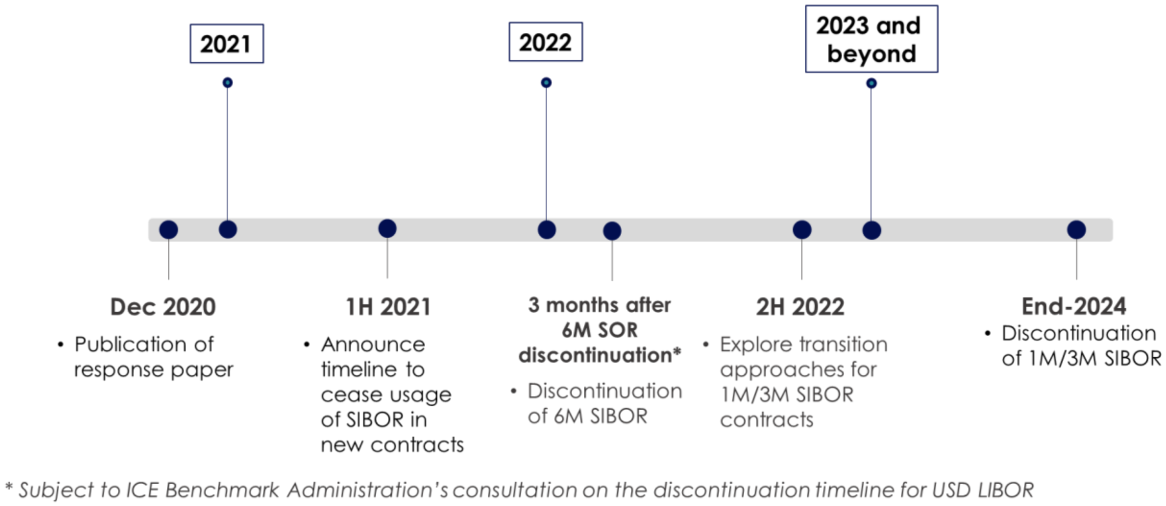
4.2.4 **Term-SORA**. While growth in the SORA derivatives market has been encouraging, the underlying activity is still not sufficient to underpin a robust term-SORA benchmark. Other jurisdictions face similar challenges in the development of term benchmarks based on risk-free rate derivatives. As such, the **development of a term-SORA market is unlikely in 2021, and remain uncertain thereafter.** SC-STS will continue to monitor market activity, and provide more information on term-SORA at a later stage. As an alternative that can similarly meet users' needs, the SC-STS had provided market guidance in October 2020 regarding SORA-based reference rates, such as Compounded SORA-in-advance.[10] SC-STS will also continue to promote the use of Compounded SORA-in-arrears in loans as the market develops.

[10] https://abs.org.sg/docs/library/overview-on-the-usage-of-sora-in-loans-customer-segments-and-preferences.pdf

5 Conclusion

5.1 The timeline for the SIBOR-to-SORA transition is summarised in Exhibit 3 below.

Exhibit 3: Timeline for SIBOR transition



5.2 ABS, SFEMC, and SC-STS would like to thank respondents for the feedback, and for the support of the proposals. The SC-STS is fully committed to supporting the industry's transition away from both SOR and SIBOR, and will outline a roadmap to integrate the work on both fronts ahead of end-2021.[11] SC-STS encourages market participants to shift away from usage of SIBOR as soon as possible, to reduce reliance on a benchmark that will be discontinued, and to contribute to the deepening of new SORA markets.

[11] The SC-STS transition roadmap can be found at: https://abs.org.sg/benchmark-rates/transition-roadmap.