



DISCONTINUATION OF CERTAIN ABS-SPONSORED BENCHMARKS
SFEMC EXPLANATORY NOTE¹ dated 5 July 2013

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Introduction

This Explanatory Note is being issued by the Singapore Foreign Exchange Market Committee (**SFEMC**) to assist market participants in their review of outstanding contracts that relate to one or more benchmarks sponsored by the Association of Banks in Singapore (**ABS**) that will be discontinued. As set out in the SFEMC Statement dated 14 June 2013², the SFEMC has made a number of recommendations on the changes that market participants should agree to make to their outstanding contracts. However, should parties fail to agree to make such amendments to their outstanding contracts, this Explanatory Note seeks to explain what will happen to such outstanding contracts pursuant to market standard template documents. Parties should note that if they come to a mutual agreement prior to settlement of such contracts, such mutual agreement will supersede the contractual fallbacks.

This Explanatory Note is not intended as legal advice and each party remains responsible for considering its own documentation and the specific terms of its own trades and forming its own conclusion on the proper interpretation and consequences of the discontinuation of the relevant benchmarks.

1. Non-deliverable forward (NDF) contracts

1.1 **NDF Template Terms for IDR/USD, MYR/USD and VND/USD NDF contracts**: In respect of outstanding IDR/USD, MYR/USD and VND/USD NDF contracts, it is assumed that these contracts are documented using the Template Terms (**NDF Template Terms**) for IDR/USD Non-Deliverable FX Transactions, MYR/USD Non-Deliverable FX Transactions and VND/USD Non-Deliverable FX Transactions respectively, in each case published by EMTA, Inc. (**EMTA**), the SFEMC and the Foreign Exchange Committee of New York (**FXC**). The NDF Template Terms specify Price Source Disruption as the sole Disruption Event and provide for the following Disruption Fallbacks:

1. Valuation Postponement
2. Fallback Reference Price: SFEMC Indicative Survey Rate
3. Fallback Survey Valuation Postponement
4. Calculation Agent Determination of Settlement Rate

1.2 The NDF Template Terms stipulate that “*if Valuation Postponement applies, ... the Settlement Date shall be as soon as practicable, but in no event later than two Business Days after the date on which the Spot Rate is determined*”.

1.3 **Summary of Disruption Fallbacks for IDR/USD, MYR/USD and VND/USD NDF contracts**: In summary, if the primary settlement rate option is not available on the valuation date, valuation is rolled forward for a maximum of 14 calendar days. If the primary settlement rate option becomes available during that period, that rate will be used to settle the contract. Otherwise, at the end of the 14-day period, the fallback settlement rate option (the SFEMC Indicative Survey Rate) will be used. Given that the SFEMC Indicative Survey was introduced to provide a market-based fallback valuation mechanism, it was considered important to provide a reasonable opportunity for the SFEMC Indicative Survey to begin to function properly. Thus, an additional 3 Business Days of postponement is built in for the SFEMC Indicative Survey to yield a result. At the end of that period, if the SFEMC Indicative Survey has not yielded a result, each contract will be settled through Calculation Agent Determination³ (which necessarily means that contracts may be settled at different rates). A flow-chart of the process can be found in the Appendix.

² The SFEMC Statement can be found at http://www.sfemc.org/pdf/SFEMC_Statement_on_ABS_Financial_Benchmarks.pdf.

³ Section 5.2(f) of the FX Definitions provides that “[u]nless otherwise specified in a Confirmation, if none of the applicable Disruption Fallbacks provides the parties with a means of determining the Settlement Rate or settling the Transaction, as the case may be, the Transaction will terminate in accordance with the provisions of “No Fault Termination””. However, given that Calculation Agent Determination should yield a result, No Fault Termination (which is defined in Section 5.2(c)(ix) of the FX Definitions) should not come into play.

1.4 **Relevant definitions:**

“Price Source Disruption” is defined in Section 5.1(d)(xi) of the 1998 FX and Currency Option Definitions (FX Definitions) to mean *“it becomes impossible to obtain the Settlement Rate on the Valuation Date (or if different, the day on which rates for that Valuation Date would, in the ordinary course, be published or announced by the relevant price source)”*.

“Valuation Postponement” is defined in the NDF Template Terms to mean *“for purposes of obtaining a Settlement Rate, that the Spot Rate will be determined on the Business Day first succeeding the day on which the Price Source Disruption ceases to exist, unless the Price Source Disruption continues to exist (measured from the date that, but for the occurrence of the Price Source Disruption, would have been the Valuation Date) for a consecutive number of calendar days equal to the Maximum Days of Postponement. In such event, the Spot Rate will be determined on the next Business Day after the Maximum Days of Postponement in accordance with the next applicable Disruption Fallback”*. The **“Maximum Days of Postponement”** is defined in the NDF Template Terms as *“14 calendar days”*.

“Fallback Reference Price” is defined in Section 5.2(c)(v) of the FX Definitions to mean *“that the Calculation Agent will determine the Settlement Rate for a Transaction on the relevant Valuation Date (or, if different, the day on which rates for that Valuation Date would, in the ordinary course, be published or announced) pursuant to the first of the alternate Settlement Rate Options, if any, specified as a Fallback Reference Price for such purpose in these Definitions or the related Confirmation that is not subject to a Disruption Event”*.

“Fallback Survey Valuation Postponement” is defined in the NDF Template Terms to mean *“that, in the event that the Fallback Reference Price is not available on or before the 3rd Business Day (or day that would have been a Business Day but for an Unscheduled Holiday) succeeding the end of either (i) Valuation Postponement for Price Source Disruption, (ii) Deferral Period for Unscheduled Holiday, or (iii) Cumulative Events, then the Settlement Rate will be determined in accordance with the next applicable Disruption Fallback on such day. For the avoidance of doubt, Cumulative Events, if applicable, does not preclude postponement of valuation in accordance with this provision”*.

“Calculation Agent Determination of Settlement Rate” is defined in Section 5.2(c)(ii) of the FX Definitions to mean *“that the Calculation Agent will determine the Settlement Rate (or a method for determining the Settlement Rate), taking into consideration all available information that in good faith it deems relevant”*.

“Settlement Rate” is defined in Section 1.16(c) of the FX Definitions to mean *“for any Valuation Date in respect of a Settlement Date, the currency exchange rate equal to (i) the Settlement Rate specified or otherwise determined as provided in the related Confirmation or, (ii) if a Settlement Rate or a means of determining a Settlement Rate is not so specified, the Spot Rate for that Valuation Date”*.

“Valuation Date” is defined in Section 1.16(f) of the FX Definitions to mean *“each date (i) specified as the Valuation Date or otherwise determined as provided in the related Confirmation ... which is a day in respect of which a Spot Rate is to be determined for purposes of determining the Settlement Rate”*.

“Spot Rate” is defined in Section 1.16(e) of the FX Definitions to mean *“for any Rate Calculation Date, the currency exchange rate determined in accordance with the specified (or deemed specified) Settlement Rate Option, or if a Settlement Rate Option is not specified (or deemed specified), the currency exchange rate at the time at which such rate is to be determined for foreign exchange transactions in the relevant Currency Pair for value on the Settlement Date, as determined in good faith and in a commercially reasonable manner by the Calculation Agent”*.

“Rate Calculation Date” is defined in Section 1.16(a) of the FX Definitions to mean *“the Valuation Date ...”*.

1.5 **Price Source Disruption: The discontinuation of the IDR ABS (IDR01), MYR ABS (MYR01) and VND ABS (VND01) spot rates would lead to a Price Source Disruption for the relevant NDF contracts, leading to the operation of the Disruption Fallbacks.**

1.6 **Application of the Disruption Fallbacks to IDR/USD, MYR/USD and VND/USD NDF contracts:**
The first Disruption Fallback, Valuation Postponement provides that if the Price Source Disruption ceases within the next 14 calendar days, then the Settlement Rate will be the IDR ABS (IDR01)/MYR ABS (MYR01)/VND ABS (VND01) spot rate (as the case may be) that next appears on the relevant Screen Page following the original Valuation Date. However, if the Price Source Disruption continues, then at the end of the 14-calendar day period, the second Disruption Fallback, Fallback Reference Price, will apply. On the 15th

calendar day (if that is a Business Day⁴, otherwise on the next Business Day), the Calculation Agent is to determine the Settlement Rate by reference to the relevant SFEMC Indicative Survey Rate⁵. If the relevant SFEMC Indicative Survey Rate is not available on that date, then the third Disruption Fallback, Fallback Survey Valuation Postponement, will apply. This requires the Calculation Agent to determine the Settlement Rate by reference to the relevant SFEMC Indicative Survey Rate if it becomes available on the next 2 Business Days. If the relevant SFEMC Indicative Survey Rate does not become available by the 3rd Business Day, then the fourth Disruption Fallback, Calculation Agent Determination of Settlement Rate⁶, will apply on that 3rd Business Day.

1.7 Example of Disruption Fallback time-line for IDR/USD, MYR/USD and VND/USD NDF contracts:

As an example of the time-line for IDR/USD, MYR/USD and VND/USD NDF contracts:

1 Sep (Mon)	14 Sep (Sun)	15 Sep (Mon)	16 Sep (Tue)	17 Sep (Wed)
Valuation Date	End of 14-calendar day period	Fallback Reference Price (1 st attempt)	Fallback Reference Price (2 nd attempt)	Fallback Reference Price (3 rd attempt)
				Calculation Agent Determination of Settlement Rate

1.8 Conclusion in respect of IDR/USD, MYR/USD and VND/USD NDF contracts: Given the discontinuation of the IDR ABS (IDR01), MYR ABS (MYR01) and VND ABS (VND01) spot rate benchmarks and that the SFEMC will not conduct an SFEMC Indicative Survey for these benchmarks, this means that the Settlement Rate will be the prevailing spot rate on the day that falls 14 calendar days plus 3 Business Days after the original Valuation Date as determined by the Calculation Agent pursuant to the fourth Disruption Fallback, Calculation Agent Determination of Settlement Rate. Settlement of the contract must take place no later than 2 Business Days⁷ after the Settlement Rate is determined. No compensation is payable by either party to the other in respect of the delayed settlement.

1.9 Form of contract for THB/USD NDF contracts: Although there is no NDF Template Terms for THB/USD NDF contracts, certain market participants may have entered into THB/USD NDF contracts by reference to the THB/USD spot rate at 11:00 a.m. Singapore time reported by ABS that appears on Reuters Screen ABSIRFIX01 Page at approximately 11:30 a.m. Singapore time (**THB ABS**) and on terms similar to those set out in the NDF Template Terms except that the Fallback Reference Price is specified as CURRENCY-REFERENCE DEALERS (CURA4) with Singapore as the Specified Office. It is assumed that outstanding THB/USD NDF contracts are documented as aforesaid.

1.10 Other relevant definitions for THB/USD NDF contracts:

“CURRENCY-REFERENCE DEALERS” or **“CURA4”** is defined in Section 4.5(e)(iv)(B) of Annex A to the FX Definitions to mean that *“the Calculation Agent will request the Specified Office of each of the Reference Dealers to provide a quotation of what the Specified Rate would have been had it been published, reported or available for the Rate Calculation Date, based upon each Reference Dealer’s experience in the foreign exchange market for the Reference Currency and general activity in such market on the Rate Calculation Date. The quotations used to determine the Spot Rate for a Rate Calculation Date will be determined in each*

⁴ This will be Valuation Date Business Day which will be Jakarta and Singapore for IDR/USD contracts, Kuala Lumpur and Singapore for MYR/USD contracts and Hanoi and Singapore for VND/USD NDF contracts.

⁵ If there are sufficient responses, the SFEMC Indicative Survey Rate will be published at 3:30 p.m. Singapore time on that day or as soon thereafter as practicable.

⁶ The Settlement Rate determined pursuant to any of the Disruption Fallbacks, including Calculation Agent Determination of Settlement Rate, will be the prevailing spot rate and not what the spot rate would have been on the original Valuation Date. The definition of “Settlement Rate” refers to *“any Valuation Date in respect of a Settlement Date”*; the definition of “Valuation Date” refers to *“a day in respect of which a Spot Rate is to be determined for purposes of determining the Settlement Rate”*; and the definition of “Spot Rate” refers to *“the currency exchange rate at the time at which such rate is to be determined for foreign exchange transactions in the relevant Currency Pair for value on the Settlement Date”* (emphasis added). In short, the Settlement Rate should be determined bearing in mind the Settlement Date and hence, the Calculation Agent should determine the prevailing spot rate and not what the spot rate would have been on the original Valuation Date.

⁷ This will be Settlement Date Business Day which will be New York.

case for such Rate Calculation Date, and will be requested at the Currency Reference Dealer Specified Time, if any, or as soon as practicable after it is determined that the Specified Rate was not available.” “[I]f four quotations are provided, the rate for a Rate Calculation Date will be the arithmetic mean of the Specified Rates, without regard to the Specified Rates having the highest and lowest value. For this purpose, if more than one quotation has the same highest or lowest value, then the Specified Rate of only one of such quotations shall be disregarded. If two or three quotations are provided, the rate for a Rate Calculation Date will be the arithmetic mean of the Specified Rates provided. If fewer than two quotations are provided, it will be deemed that the Spot Rate for that Rate Calculation Date cannot be determined pursuant to this Settlement Rate Option”.

“**Reference Dealers**” is defined in Section 4.6(d) of Annex A to the FX Definitions to mean “the four dealers specified in the related Confirmation or, if dealers are not so specified, four leading dealers in the relevant market selected by the Calculation Agent”.

“**Specified Rate**” is defined in Section 4.6(i) of Annex A to the FX Definitions to mean “in respect of a Transaction and the determination of the Spot Rate pursuant to a Settlement Rate Option, any of the following rates, as specified in the related Confirmation: ... If no such rate is specified, the Specified Rate will be deemed to be the average of the Reference Currency bid and offer rates”.

“**Specified Time**” is defined in Section 4.6(j) of Annex A to the FX Definitions to mean “in respect of a Transaction and the determination of the Spot Rate pursuant to the related Settlement Rate Option, the time specified as such in the related Confirmation”.

1.11 **Application of the Disruption Fallbacks to THB/USD NDF contracts:** The first Disruption Fallback, Valuation Postponement requires the parties to wait for 14 calendar days to see if the Price Source Disruption ceases to exist and if it does, at the end of the 14-calendar day period, to resort to the second Disruption Fallback, Fallback Reference Price. On the 15th calendar day (if that is a Business Day⁸, otherwise on the next Business Day), the Calculation Agent is to determine the Settlement Rate by reference to “CURRENCY-REFERENCE DEALERS” or “CURA4”, i.e., the Calculation Agent is to request the Singapore office of four leading dealers in the THB NDF market selected by the Calculation Agent⁹ to provide their quotations of what they think the bid and offer rates for a THB/USD spot transaction would have been on the original Valuation Date at a time as soon as practicable after 11:30 a.m. Singapore time¹⁰ on such day. If at least two quotations are obtained, the Calculation Agent is to determine the arithmetic mean of the average of the bid and offer rates in the manner set out in paragraph 1.10. If fewer than two quotations are obtained, then the third Disruption Fallback, Fallback Survey Valuation Postponement, will apply. This requires the Calculation Agent to try to obtain at least two quotations as aforesaid on the next 2 Business Days. If the Calculation Agent fails to obtain at least two quotations by the 3rd Business Day, then the fourth Disruption Fallback, Calculation Agent Determination of Settlement Rate will apply on that 3rd Business Day.

1.12 **Conclusion in respect of THB/USD NDF contracts:** Given the discontinuation of the THB ABS spot rate benchmark and that it is reasonably likely that the Calculation Agent will be able to obtain at least two quotations, this means that it is reasonably likely that the Settlement Rate will be the spot rate on the original Valuation Date as determined pursuant to the second Disruption Fallback, Fallback Reference Price or third Disruption Fallback, Fallback Survey Valuation Postponement. Settlement of the contract must take place no later than 2 Business Days¹¹ after the Settlement Rate is determined. No compensation is payable by either party to the other in respect of the delayed settlement.

⁸ This will be Valuation Date Business Day which typically will be specified as Bangkok and Singapore for THB/USD contracts.

⁹ Assuming that the relevant Confirmation does not specify who the four dealers should be.

¹⁰ Assuming that the relevant Confirmation does not specify a Specified Time.

¹¹ This will be Settlement Date Business Day which typically will be New York.

1.13 **Example of Disruption Fallback time-line for THB/USD NDF contracts:** As an example of the time-line for THB/USD NDF contracts:

1 Sep (Mon)	14 Sep (Sun)	15 Sep (Mon)	16 Sep (Tue)	17 Sep (Wed)
Valuation Date	End of 14-calendar day period	Fallback Reference Price (1 st attempt) ¹²	Fallback Reference Price (2 nd attempt) ¹³	Fallback Reference Price (3 rd attempt) ¹⁴
				Calculation Agent Determination of Settlement Rate ¹⁵

2. Non-deliverable currency option (NDO) contracts

2.1 **NDO Template Terms for IDR/USD, MYR/USD and VND/USD NDO contracts:** In respect of outstanding IDR/USD, MYR/USD and VND/USD NDO contracts, it is assumed that these contracts are documented using the Template Terms (**NDO Template Terms**) for IDR/USD Non-Deliverable Currency Option Transactions, MYR/USD Non-Deliverable Currency Option Transactions and VND/USD Non-Deliverable Currency Option Transactions respectively, in each case published by EMTA. Like the NDF Template Terms, the NDO Template Terms specify Price Source Disruption as the sole Disruption Event and provide for the same Disruption Fallbacks.

2.2 Further, like the NDF Template Terms, the NDO Template Terms stipulate that “*if Valuation Postponement applies, ... the Settlement Date shall be as soon as practicable, but in no event later than two Business Days after the date on which the Spot Rate is determined*”.

2.3 **Form of contract for THB/USD NDO contracts:** Although there is no NDO Template Terms for THB/USD NDO contracts, certain market participants may have entered into THB/USD NDO contracts by reference to the THB/ABS rate and on terms similar to those set out in the NDO Template Terms except that the Fallback Reference Price is specified as CURRENCY-REFERENCE DEALERS (CURA4) with Singapore as the Specified Office. It is assumed that outstanding THB/USD NDO contracts are documented as aforesaid.

2.4 **Conclusion:** As such, the discussion in Section 1 above applies *mutatis mutandis* to such NDO contracts.

3. Non-deliverable swap (NDS) contracts

3.1 **NDS Templates:** In respect of outstanding NDS contracts, it is assumed that these contracts are documented using either the revised form of confirmation that incorporates inter alia the Non-Deliverable Swap Transaction Standard Terms Supplement, as published by the International Swaps and Derivatives Association, Inc. (ISDA) on December 5, 2011 (**2011 NDS Template**), or the form of confirmation that incorporates inter alia the Non-Deliverable Swap Transaction Standard Terms Supplement, as published by ISDA on October 19, 2009 (**2009 NDS Template**).

3.2 In respect of IDR, MYR and VND, like the NDF Template Terms, the 2011 NDS Template and the 2009 NDS Template each specify Price Source Disruption as the sole Disruption Event and provide for the same Disruption Fallbacks. In respect of THB, the 2011 NDS Template and the 2009 NDS Template each specify Price Source Disruption as the sole Disruption Event and provide for the same Disruption Fallbacks as in the NDF Template Terms, except that the Fallback Reference Price is specified as CURRENCY-REFERENCE DEALERS (CURA4) with Singapore as the Specified Office.

¹² Spot Rate as of 1 Sep.

¹³ Spot Rate as of 1 Sep.

¹⁴ Spot Rate as of 1 Sep.

¹⁵ Spot Rate as of 17 Sep

3.3 The 2011 NDS Template and the 2009 NDS Template each stipulate that “if Valuation Postponement applies, then the Settlement Date relating to such Scheduled Valuation Date shall be as soon as practicable, but in no event later than the day which is the number of Business Day(s), as specified under the column headed “Number of Business Day(s) for Settlement Date term” in the Fallback Matrix for the applicable Currency Pair, after the date on which the Spot Rate for such Settlement Date is determined. If any Settlement Date is adjusted in accordance with the preceding sentence, then such adjustment (and the corresponding payment obligations to be made on such dates) shall apply in respect of both parties, and provided further that no such adjustments shall be made in respect of Period End Dates (including the Termination Date) for the purpose of determining the Calculation Periods”. The relevant column of the Fallback Matrix specifies two Business Days in respect of IDR, MYR, VND and THB.

3.4 **Conclusion:** As such, the discussion in Section 1 above applies *mutatis mutandis* to such NDS contracts¹⁶. No additional interest will be payable in respect of the delayed settlement under the 2011 NDS Template or the 2009 NDS Template and no adjustments will be made to the Calculation Periods as a result of such delayed settlement.

4. Contracts referencing the SGD SOR rate

4.1 Section 7.1(t)(iii) of the 2006 ISDA Definitions (**Rates Definitions**) which defines “**SGD-SOR-Reuters**” provides for a final fallback to SGD-SOR-Reference Banks. “**SGD-SOR-Reference Banks**” is defined in Section 7.1(t)(iv) of the Rates Definitions. In brief, SGD-SOR-Reference Banks provides for the determination of the rate by the Calculation Agent through polling four major banks in the Singapore interbank market selected by the Calculation Agent. However, in the event that the Calculation Agent is not able to obtain at least two quotations, no further fallback is provided.

5. Contracts referencing the THB SOR rate

5.1 Section 7.1(aa)(i) of the Rates Definitions which defines “**THB-SOR-Reuters**” provides for a fallback to THB-SOR-Reference Banks. “**THB-SOR-Reference Banks**” is defined in Section 7.1(aa)(ii) of the Rates Definitions. In brief, THB-SOR-Reference Banks provides for the determination of the rate by the Calculation Agent through polling four major banks in the Singapore interbank market selected by the Calculation Agent. However, in the event that the Calculation Agent is not able to obtain at least two quotations, no further fallback is provided.

6. Contracts referencing the SGD SIBOR rate

6.1 Section 7.1(t)(i) of the Rates Definitions which defines “**SGD-SIBOR-Reuters**” provides for a fallback to SGD-SIBOR-Reference Banks. “**SGD-SIBOR-Reference Banks**” is defined in Section 7.1(t)(ii) of the Rates Definitions. In brief, SGD-SIBOR-Reference Banks provides for the determination of the rate by the Calculation Agent through polling the principal Singapore office of four major banks in the Singapore interbank market selected by the Calculation Agent. In the event that the Calculation Agent is not able to obtain at least two quotations, it will poll major banks in Singapore for loans in Singapore Dollars to leading banks in Singapore. However, in the event that the Calculation Agent is not able to determine a rate, no further fallback is provided.

¹⁶ Note that Settlement Date Business Day differs from that in the NDF contracts.

7. Contracts referencing the USD SIBOR rate

7.1 Section 7.1(ab)(xxviii) of the Rates Definitions which defines “**USD-SIBOR-SIBO**” provides for a fallback to USD-SIBOR-Reference Banks. “**USD-SIBOR-Reference Banks**” is defined in Section 7.1(ab)(xxix) of the Rates Definitions. In brief, USD-SIBOR-Reference Banks provides for the determination of the rate by the Calculation Agent through polling the principal Singapore office of four major banks in the Singapore interbank market selected by the Calculation Agent. In the event that the Calculation Agent is not able to obtain at least two quotations, a final fallback to USD-LIBOR-BBA is provided.

APPENDIX

ASIAN NDF FLOW CHART

