<table>
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<th><strong>FREQUENTLY ASKED QUESTIONS</strong></th>
<th><strong>FAQs FOR CORPORATES</strong></th>
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<td><strong>LOANS – EXISTING/LEGACY</strong></td>
<td></td>
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<tr>
<td><strong>Q1:</strong> My company has an existing loan that references SOR and matures after end 2021. What should I do about this?</td>
<td>There is no immediate impact on your loan at this juncture, and your bank will be reaching out to you in due course to assist with the transition. However, to prepare for the upcoming transition, you are encouraged to review the terms and conditions of your loan contract to understand the implications and the actions required.</td>
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<td><strong>Q2. Can my bank just replace my SOR loan pricing to SIBOR (or enhanced SIBOR)?</strong></td>
<td>Your bank will be writing to you at the appropriate time to consider different options. You will have the ability to choose the right loan package that best meets your needs. You will also need to consider if replacing a SOR loan with other benchmarks impacts your related transactions (e.g. hedges) and the corresponding accounting and tax implications. SORA and SIBOR are different SGD benchmarks that are determined on a different basis. In relation to the usage of SIBOR, ABS Benchmarks Administration Pte Ltd (ABS Co) is conducting a transitional testing for the enhanced SIBOR, and will provide an update after the transitional testing is completed in 2H 2020. The results of the transitional testing will be considered by the Steering Committee for SOR Transition to SORA (SC-STS), which will issue industry guidance in due course. While SORA is not commonly used in the loan market, it is not new and has been published daily by the MAS since 2005. Over time, just like any new benchmark, e.g., when SOR was introduced, borrowers will become familiar with SORA, and its use in loans and other cash or derivatives products will increase.</td>
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<td><strong>Q3:</strong> What will happen to my outstanding loan if I do not want to change my rate, even when SOR is discontinued?</td>
<td>When SOR is discontinued, your bank will no longer be able to calculate your interest payment using SOR. Instead, your loan interest payment will be calculated using a ‘fallback’ rate or other alternative provisions specified in the terms and conditions of your loan contract. You should start preparing for the transition as early as possible by reviewing the terms and conditions of your loan contract to understand the consequential implications and actions required. Your bank will reach out to you in due course to discuss the options that are available to you as a borrower once SOR is discontinued.</td>
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**Q4. How will the change in benchmark affect my loan repayment?**

The transition from SOR to another benchmark could lead to some changes to your loan repayment, depending on market conditions at that point in time. Your bank will reach out to you in due course to discuss options that are available to you as a borrower.

**Q5: If I have more than one loan pegged to SOR, will I have to re-sign every loan?**

Yes, all SOR-pegged loans will be affected once SOR is discontinued. Your bank will assist you to take the necessary actions in due course.

**Q6: What if I had hedged my SOR loan with a swap?**

If you had hedged your SOR loan with a swap, your swap would also have been likely pegged to SOR. You should review the terms of your swap contract as early as possible to understand the consequential implications once SOR is discontinued. Notably, if the terms of your swap contract provide for a ‘fallback’ rate, there is a possibility of a hedging mismatch if the ‘fallback’ rate of your loan differs or kicks in at a different time. Your bank will reach out to you in due course to discuss options.

An alternative would be to transition both your loan and swap to reference SORA, which will allow for hedge effectiveness to be maintained. SC-STS plans to provide market guidance on how users may undertake this process, and the Committee will provide further information on this matter in due course.

**Q7: What are the tax and accounting-related implications of the change in benchmark?**

Sub-Group 7 of the SC STS was formed to study the accounting and tax implications arising from the SOR to SORA transition. Where required, SC-STS will work with accounting and tax bodies in Singapore, and issue guidance on the practical application of accounting standards and tax rules in the context of existing SOR/SORA cash market exposures.

**LOANS – NEW**

**Q8: I am looking to take up a new loan. Should I avoid entering into any new contracts that still reference SOR?**

If you wish to take up a new loan that references SOR, you should review the proposed new loan contract for terms that set out, or permit a switch or fallback to an alternative rate from SOR.

**Q9: Who should I contact if my company is keen to take up a new loan pegged to SORA?**

If you are keen to take up a new loan pegged to SORA, kindly contact your bank or ABS for more details.
Q10. How will SORA be used to compute interest payments for corporate borrowers?

There are a few ways SORA could be used to calculate interest payments for corporate loans. In other markets such as the US and the UK, banks have made loans to corporates based on a compounded or simple average of the alternative overnight interest rate benchmark. The SC-STS is studying various approaches and will provide an update in due course.

Q11. Will banks continue to offer fixed rate loans? Will these be affected by the transition?

The expected discontinuation of SOR only affects contracts that reference SOR, e.g. SOR floating rate loans. Banks will continue to offer other types of loans that fit customer needs, including fixed rate loans.

Q12. What are the next steps in developing forward-looking term SORA?

Term SORA can only be developed if there is deep and liquid trading of SORA derivatives, e.g. SORA Overnight Indexed Swaps (OIS) transactions. Specifically, this would require frequent and sizeable daily transactions in the specific benchmark tenors of interest (e.g. 1-month OIS). The experience in other jurisdictions globally shows that it would take time for this to be achieved. Some other jurisdictions have concluded that it would not be possible for such term benchmarks to be constructed.

The SC-STS will continue to monitor the development of the SORA derivatives market and will explore the feasibility of developing such benchmarks when the market is sufficiently developed.

As there is no way to guarantee the development of such term SORA benchmarks, end-users should not delay their transition plans in anticipation of this rate, and should instead prepare to transact in products that reference compounded SORA.

DERIVATIVES

Q13. How will my outstanding derivative contracts be affected by the transition?

If you have outstanding derivative contracts referencing SOR that mature beyond end 2021, the smoothest transition would be to replace or amend contracts referencing SOR to reference SORA before end-2021.

Q14. What is the possible fallback for derivatives transactions that currently reference SOR?

Based on the ISDA’s consultation results and the recommendation of the SC-STS, ‘Adjusted SOR’ has been identified as the contractual fallback for legacy SOR derivatives.
‘Adjusted SOR’ follows the same calculation formula as SOR except that the USD LIBOR in the calculation is replaced by the fallback rate for USD LIBOR, which is the daily compounded Secured Overnight Financing Rate (Adjusted SOFR) plus a spread adjustment.

The spread in relation to Adjusted SOFR will be calculated, and published, by Bloomberg based on a methodology that was selected after a series of public consultations by ISDA. There is no further spread adjustment to be calculated in relation to Adjusted SOR.

Unlike SOR, ‘Adjusted SOR’ will be a backward-looking rate like Adjusted SOFR, and the rate will be known and published at the end of the calculation period.

Contractual fallbacks should be adopted only as a safety net. It is recommended that contracts that reference SOR should be replaced or amended to SORA before fallback provisions are triggered.

**Q15. What is SOFR?**

SOFR is the secured overnight financing rate administered, and published, by the Federal Reserve Bank of New York and it is the recommended alternative to USD LIBOR selected by the Alternative Reference Rate Committee (ARRC). ARRC is a group of private market participants convened by the Federal Reserve Board and the Federal Reserve Bank of New York.

**Q16. How long will Adjusted SOR be in effect?**

Adjusted SOR, like the SOR, will be administered by the Association of Banks in Singapore Benchmarks Administration Co., and is intended as an interim measure to buy time for users to transition their derivatives contracts to reference SORA. It is not intended as a reference benchmark for the SGD derivatives market, which should transition to reference SORA. As such, Adjusted SOR will eventually be discontinued. The SC-STS is reviewing this issue of how long Adjusted SOR is needed to fulfil its function as an interim measure, and will provide further information on this matter in due course.

**Q17. Is there legal documentation setting out the new fallback to Adjusted SOR?**

ISDA will be amending the 2006 ISDA Definitions to incorporate the fallback trigger and fallback rates for LIBOR and other major IBORs, including the fallback to Adjusted SOR for SOR derivatives. By incorporating the amended 2006 ISDA Definitions for new derivatives entered into on or after the effective date, market participants can adopt the new fallbacks. ISDA will also publish a related IBOR Fallbacks Protocol which market participants can use to amend legacy derivatives entered into prior to the effective date of the amended 2006 ISDA Definitions.

To facilitate legacy transitions, contractual fallbacks for SOR derivatives are scheduled to be published in 3Q 2020, in the ISDA amended definitions and related protocol. SC-STS also supports the ISDA February 2020 consultation to incorporate pre-cessation triggers.
Contractual fallbacks should be adopted only as a safety net. It is recommended that contracts that reference SOR should be replaced or amended to SORA before fallback provisions are triggered.

Q18. How will the market transit from SOR to SORA for derivatives trading?

The transition from SOR to SORA will be a phased approach. SC-STS plans to develop active trading of SORA derivatives from the first half of 2020, and trading of SORA derivatives has already commenced in the inter-bank markets. Market participants should consider referencing SORA instead of SOR in new contracts. As SORA derivatives increase in usage, they will become an alternative to SOR-based derivatives and will eventually replace SOR as the benchmark for SGD derivatives.

To facilitate wider use of SORA derivatives, the SC-STS in February 2020 developed and published guidance on market conventions across SORA derivatives (OIS, SOR-SORA basis swaps, and SGD SORA USD SOFR cross currency swaps).

The further deepening of SORA-based markets would also facilitate market participants' transition of legacy SOR contracts to SORA.

Q19. As a market participant, what do I need to do to prepare for this transition?

You should assess your affected contracts, products, and services, and familiarise yourself in the developments of this transition.

If you wish to enter into new derivative contracts that reference SOR, you should consider adopting appropriate fallbacks in your contracts. If you wish to enter into new derivatives contracts that references SORA, your bank would be happy to discuss this further with you.

Q20. Can I still keep using SOR after 31 December 2021?

No, the continued use of SOR is not likely to be feasible after 31 December 2021, given one of its components is USD LIBOR. The UK Financial Conduct Authority (FCA), the supervisory authority of LIBOR, has stated that it will no longer compel banks to submit rates used for the calculation of LIBOR after 31 December 2021. This means that LIBOR is expected to be discontinued after end-2021. As SOR utilises the USD LIBOR in its computation, the cessation of LIBOR will directly affect the sustainability of SOR. You should prepare to shift towards SORA derivatives well in advance of end 2021.

Q21. Are all derivatives transactions impacted by this change?

All SGD interest rate derivatives, including cross currency swaps, and all structured products referencing SOR will be impacted.
Q22. Have SORA derivatives trades been executed in the market?

The first SORA OIS trades were transacted in the interbank market in November 2019. SGD SORA USD SOFR cross currency swaps, and SOR-SORA basis swaps have also been transacted since then.

The recent increase in SORA derivatives pricing being actively quoted by dealers and made available on key financial market data platforms, including Bloomberg, Refinitiv, and broker screens (BGC, ICAP, Tradition, Tullett Prebon, GFI, Nittan), will help build further liquidity in SORA markets.

In addition, trade processing platforms such as MarkitWire also began supporting SORA derivatives in May 2020, booking the first bilateral SORA Interest Rate Swaps (IRS) trade on their platform.

Good progress has also been made to ensure key market infrastructure is available to facilitate trading of SORA derivatives. In May 2020, LCH launched the central clearing of over-the-counter SORA instruments including SORA OIS and SOR-SORA basis swaps, and also cleared the first SORA swaps. This will help catalyse interdealer activity in SORA derivative products, and allow for broader adoption of SORA in financial products.

Q23. Will there be a non-subscription live page to show SORA derivatives pricing for price discovery?

SORA derivatives pricing is increasingly being actively quoted by dealers and made available on key financial market data platforms, including Bloomberg and Refinitiv, and broker screens (BGC, ICAP, Tradition, Tullett Prebon, GFI, Nittan). This will help build further liquidity in SORA markets.

Q24. Are banks ready to trade SORA?

As of June 2020, the majority of the member banks in the SC-ST (Australia and New Zealand Banking Group Limited, Barclays Bank PLC, BNP Paribas, Citibank NA, DBS Bank Ltd, Deutsche Bank AG, Singapore Branch, HSBC, JP Morgan Chase Bank, N.A., OCBC Bank, Standard Chartered Bank, and United Overseas Bank Limited) are ready to trade SORA derivatives, paving the way for greater market participation and increased liquidity.

Q25. How does the committee intend to build up liquidity in SORA products as Singapore dollar instruments by itself does not have much liquidity?

Progress has been made in several domains to encourage greater market participation and enhance liquidity. There has been an increase in SORA derivatives pricing being actively quoted and made available on key financial market data platforms, including Bloomberg and Refinitiv, broker screens. Good progress has also been made to ensure key market infrastructure is available to facilitate trading of SORA derivatives. On 19 May 2020, LCH launched the central clearing of over-the-counter SORA instruments, including SORA OIS and
SOR-SORA basis swaps, and also cleared the first SORA swaps between OCBC Bank and Standard Chartered Bank. SC-STS continues to work closely with member banks to facilitate the transition in other products such as bonds and loans to build demand for SORA-linked derivatives (for hedging etc.) in the market.

**Q26. When will SORA futures be launched and on which exchange? How long will it run parallel to SOR to determine its stability?**

While there are no immediate plans to launch SORA futures, discussions are ongoing to determine the relevant products for the market as liquidity deepens.

**Q27. What can we expect if SORA forward fix term fails to materialise and what specifically is needed so that forward term can be built? Is there minimum number of trades down tenor points?**

Term SORA can only be developed if there is deep and liquid trading of SORA derivatives, e.g. SORA Overnight Indexed Swaps (OIS) transactions. Specifically, this would require frequent and sizeable daily transactions in the specific benchmark tenors of interest (e.g. 1-month OIS). The experience in other jurisdictions globally shows that it would take time for this to be achieved. Some other jurisdictions have concluded that it would not be possible for such term benchmarks to be constructed.

The SC-STS will continue to monitor the development of the SORA derivatives market and will explore the feasibility of developing such benchmarks when the market is sufficiently developed.

**Q28. Understand that the derivative markets will be using the compounded-in-arrears SORA, does this mean that it will apply across all the banks?**

ABS SC-STS said in its press release dated 29 June 2020 that SC-STS published in February 2020 guidance on market conventions across SORA derivatives (Overnight Index Swaps, CrossCurrency Swaps, SOR-SORA Basis Swaps) to enable broader adoption by market participants.

**Q29. How should we ensure no interest rate difference in SORA and SOR rates in the existing contract, referring IRS hedging and un-hedged rate products?**

The use of overnight interest rate benchmarks in financial products is increasing in other major currency areas. These include futures and Overnight Indexed Swaps (OIS) referencing SOFR and SONIA. Market participants that have experience with such products should find the adoption of SORA-based derivatives to be relatively easy.

Globally, the use of overnight interest rate benchmarks (i.e. risk free rates or RFR) has been gaining traction in many key jurisdictions, including the UK and US. While there were some initial concerns around the volatility of SORA on a daily basis, it was recognised that financial products which reference overnight rates typically use an average rate over a period, and not a single day's rate. For example, a SGD OIS or loan contract could be settled against the 3-
month or 6-month compounded average SORA. As seen in the chart below, this compounded average SORA which financial contracts would reference, is more stable than the 6-month SOR, which most SGD derivatives currently reference.

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<tr>
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<th>6M SOR</th>
<th>6M SIBOR</th>
<th>6M Compounded SORA</th>
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<tbody>
<tr>
<td>Maximum</td>
<td>3.9215</td>
<td>3.6250</td>
<td>3.2767</td>
</tr>
<tr>
<td>Average</td>
<td>1.3449</td>
<td>1.3277</td>
<td>0.7563</td>
</tr>
<tr>
<td>Median</td>
<td>1.1596</td>
<td>1.1453</td>
<td>0.2384</td>
</tr>
<tr>
<td>Minimum</td>
<td>-0.9926</td>
<td>0.4111</td>
<td>0.0441</td>
</tr>
<tr>
<td>90% of daily change within</td>
<td>+/- 0.4bps</td>
<td>+/- 1.25bps</td>
<td>+/- 0.77bps</td>
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OTHER MATTERS

Q30. Should firms start building or investing systems to manage SORA products?

The use of SORA in your financial contracts will require changes in systems, operations, accounting and other processes. It is important that firms start reviewing the changes needed, as these will take time to implement. The industry is trending towards the use of compounded rates, in SGD as with the major currencies; it is important for institutions to have in place the systems to manage such backward-looking compounded rates.