April 2021 (Ver 3.0)

Risks Related to the Use of Benchmarks in Derivatives

London Interbank Offered Rate (LIBOR)

On 5 March 2021, the UK Financial Conduct Authority (FCA) released an announcement on the future cessation and loss of representativeness of the LIBOR benchmarks. The full announcement can be found here: https://www.fca.org.uk/publication/documents/future-cessation-loss-representativeness-libor-benchmarks.pdf

The UK FCA announced that:

- publication of all seven euro and Swiss franc LIBOR tenors, overnight, one-week, two-month and 12-month sterling LIBOR, spot next, one-week, two-month and 12-month yen LIBOR, and one-week and two-month US dollar LIBOR will permanently cease immediately after 31 December 2021;
- one-month, three-month and six-month sterling LIBOR and yen LIBOR will no longer be representative and representativeness will not be restored immediately after 31 December 2021;
- publication of the overnight and 12-month US dollar LIBOR settings will permanently cease immediately after 30 June 2023; and
- one-month, three-month and six-month US dollar LIBOR will no longer be representative and representativeness will not be restored immediately after 30 June 2023.

If cessation of LIBOR occurs during the term of your financial instrument, the contractual terms would provide a process for determining a fallback but it is unclear and uncertain what rate such financial instrument would reference as a result of that process. Due to this lack of clarity and certainty, there is no way to know at this time whether you would be disadvantaged economically. Timing for cessation of LIBOR varies across different currencies and tenors in which LIBOR is currently set for and such timing may differ from the timing for any cessation of other interbank offered rates (***IBORs***). In addition, the cessation of LIBOR may result in a mismatch between the rate referenced in your financial instruments, including potentially those that are intended as hedges.

Impact on Singapore Dollar Swap Offer Rate (SOR)

Given that SOR utilises the USD LIBOR in its computation, the cessation of USD LIBOR will directly affect the sustainability of SOR. The Association of Banks in Singapore and Singapore Foreign Exchange Market Committee (***ABS-SFEMC***) have identified the Singapore Overnight Rate Average (***SORA***) as the most suitable interest rate benchmark to replace SOR.

SORA has been published by the Monetary Authority of Singapore (***MAS***) since 2005, and is a robust benchmark that is underpinned by a deep and liquid overnight interbank funding market.

To ensure a smooth transition from SOR to SORA, MAS has set up an industry-led Steering Committee for SOR Transition to SORA (***SC-STS***) comprising senior representatives from key banks, relevant industry associations and MAS. SC-STS will provide strategic direction on industry proposals to develop new products and markets based on SORA, and support this transition process in the coming quarters.

For more information on the transition from SOR to SORA, please visit the website of the Association of Banks in Singapore (***ABS***): https://abs.org.sg/benchmark-rates/sor-to-sora.

IBORs other than LIBOR and SOR

While there is not currently an expectation that key IBORs other than LIBOR and SOR (***Other IBORs***) will be discontinued (examples such as EURIBOR, TIBOR, BBSW, BKBM, HIBOR, JIBOR, KLIBOR, BIBOR, SHIBOR, KORIBOR, TAIBOR[1]), there is no guarantee that such Other IBOR will continue to be produced and published for the entire term of your financial instrument (if so applicable). If cessation of the relevant Other IBOR occurs during the term of your financial instrument (if so applicable), the contractual terms would provide a process for determining a fallback but it is unclear and uncertain what rate such financial instrument would reference as a result of that process. As a result of this lack of clarity and certainty, there is no way to know at this time whether you would be disadvantaged economically. Timing for any cessation of the relevant Other IBOR may differ from the timing for any cessation of other rates. In addition, the cessation of the relevant Other IBOR may result in a mismatch between the rate referenced in your financial instruments, including potentially those that are intended as hedges.

IBOR Fallbacks Supplement and ISDA Protocol

The International Swaps and Derivatives Association, Inc. (***ISDA***) has published a supplement to the 2006 ISDA Definitions (***IBOR Fallbacks Supplement***) to include fallbacks to certain IBORs that would take effect and provide certainty if an index cessation event occurs with respect to such IBORs, including LIBOR and SOR. The IBOR Fallbacks Supplement will be effective as of 25 January 2021 (***Effective Date***). This means that new derivative contracts entered into on or after the Effective Date that incorporates the 2006 ISDA Definitions will include the relevant fallbacks for the IBORs set out in the IBOR Fallbacks Supplement.

ISDA has launched a protocol (***ISDA Protocol***) to enable market participants with legacy derivative contracts entered into prior to the Effective Date to adhere to the ISDA Protocol to update those legacy derivative contracts to incorporate the IBOR Fallbacks Supplement. Between parties who have adhered to the ISDA Protocol, the amendments to their existing derivative contracts will take effect on the later of the Effective Date and the applicable date on which both parties adhere to the ISDA Protocol.

ISDA has confirmed that the announcement by UK FCA on 5 March 2021 constitutes an index cessation event under the IBOR Fallbacks Supplement and the ISDA Protocol for all 35 LIBOR settings. ISDA's statement can be found here: https://www.isda.org/a/8PZTE/ISDA-Statement-on-FCA-LIBOR-Announcement-final.pdf.

Next Steps

You should consider either adhering to the ISDA Protocol or bilaterally amending outstanding derivative contracts to incorporate the IBOR Fallbacks Supplement. Adherence to the ISDA Protocol will amend contracts with other adhering parties but will not result in inclusion of the fallbacks in contracts with counterparties that do not adhere. If you choose not to adhere to the ISDA Protocol, your existing derivative contracts may be amended by way of a bilateral amendment agreement to include fallback terms that are mutually agreeable with your counterparties.

Even after the Effective Date, the cessation of LIBOR or SOR and the application of the IBOR Fallbacks Supplement may result in a mismatch between the rate referenced in your financial instruments, including potentially those that are intended as hedges.

You should review the terms of your outstanding financial instruments to determine if adhering to the ISDA Protocol or entering into appropriate bilateral amendments will meet your hedging objectives. You should also consider the tax, accounting and regulatory implications of executing and then potentially amending your outstanding financial instruments.

[1] This citation of Other IBORs is by no means exhaustive and solely for illustrative purposes as examples based on current information. The cited examples are subject to change depending on evolving local market developments.