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To Chief Executives
All Licensed Insurers

Dear Sir/Madam

PREPARATION FOR LIBOR DISCONTINUATION: ENHANCING CONTRACTUAL ROBUSTNESS

The Monetary Authority of Singapore ("MAS") expects financial institutions ("FIs") in Singapore to be prepared well ahead of end-2021 for the discontinuation of the London Inter-bank Offered Rate ("LIBOR") and correspondingly, the Singapore Dollar Swap Offer Rate ("SOR"), which uses USD LIBOR in its computation.

2 FIs should closely monitor their usage of LIBOR and SOR, and proactively plan for an early transition of their legacy LIBOR and SOR contracts to alternative reference rates. This will ensure that parties to transactions can execute changes to their contracts in good time. FIs should also put in place robust contractual fallbacks to address the risk of contractual frustration or settlement issues in contracts that would not have transitioned by the time of LIBOR discontinuation.

3 MAS strongly encourages FIs with exposures to LIBOR or SOR derivatives transactions to adhere to the International Swaps and Derivatives Association's ("ISDA") inter-bank offered rates ("IBOR") Fallback Protocol, which will be published in the coming weeks alongside an ISDA IBOR Fallback Supplement. ISDA developed these fallback documents at the request of the Financial Stability Board's Official Sector Steering Group ("OSSG")[1]. The IBOR Fallback Protocol and IBOR Fallback Supplement have benefitted from ISDA's public consultations[2], as well as feedback from ISDA members. The Steering

[1] See OSSG's letter to ISDA about derivative contract robustness to risks of interest rate benchmark discontinuation (15 March 2019). The OSSG, comprising senior officials from central banks and regulatory agencies, coordinates the review of widely used interest rate benchmarks.
[2] See The Brattle Group's Summary of Responses to the ISDA Consultation on Final Parameters for the Spread and Term Adjustments, prepared for ISDA.

Committee for SOR Transition to SORA (“SC-STS”)[3] in Singapore has also expressed support for adherence to the IBOR Fallback Protocol.[4]

4 The IBOR Fallback Protocol will facilitate multi-lateral contractual amendments for *existing* derivatives transactions by incorporating the IBOR Fallback Supplement, which sets out the contractual fallback arrangements for LIBOR, SOR and other key IBORs. Meanwhile, all *new* derivatives transactions based on the 2006 ISDA Definitions will automatically incorporate the IBOR Fallback Supplement, if these are initiated after the IBOR Fallback Supplement comes into effect later this year. FIs should prepare for the necessary operational and systems changes needed to accommodate the use of fallback rates, well ahead of end-2021.

5 MAS also expects FIs with the relevant cash market exposures to closely monitor the contractual fallbacks being developed for business and mortgage loans, floating rate notes, securitisations and other products, which various national working groups will be recommending[5]. Where there is a need to continue writing new contracts using LIBOR or SOR, FIs should take measures, pending the conclusion of recommendations on these contractual fallbacks, to ensure contractual robustness to mitigate the risks from discontinuation of LIBOR or SOR. The greater use of alternative reference rates in new contracts will also mitigate the risk of further exposure to LIBOR or SOR. In this regard, the SC-STS has made good progress in laying the foundation for wider use of the Singapore Overnight Rate Average (“SORA”) to replace SOR[6]. MAS has also started publishing compounded SORA rates and commenced issuance of SORA-based floating rate notes to facilitate the broader user of SORA.

6 MAS will continue to monitor individual FI’s progress in preparing for the discontinuation of LIBOR and SOR.

[3] SC-STS is an industry-led committee established by MAS to provide strategic direction and oversee the transition from SOR to SORA. The committee comprises senior representatives from key banks, relevant industry associations and MAS.
[4] See SC-STS’ letter to all ABS member banks / institutions regarding adherence to the ISDA IBOR Fallback Protocol.
[5] See Bank of England’s (“BOE”) webpage on Transition to sterling risk-free rates from LIBOR and Alternative Reference Rates Committee’s (“ARRC”) webpage on Fallback Contract Language. See also Europe, Switzerland and Japan national working groups’ webpages for updates on fallback approaches for cash market products.
[6] See the SC-STS Transition Roadmap

Yours faithfully

(Sent via MASNET)

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