

IBOR Transition

#22: SC-STs Formalizes MRR And Guides On Spread Adjustment For Active SOR To SORA Transitions

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- Formalization of the MAS Recommended Rate (MRR) helps to provide certainty for outstanding contracts after 31 Dec 2024.
- MRR spread adjustments serves as reference for active SOR to SORA transitions before 31 Dec 2024.
- SC-STs will provide further guidance, worked examples, as well as online calculators around end Sep 2022.

In the latest statement published on 18 Jul 22, The Association of Banks in Singapore (“ABS”) and the Steering Committee for SOR & SIBOR Transition to SORA (“SC-STs”) finalised the key settings of the MAS Recommended Rate (“MRR”), that will apply as a contractual fallback reference rate in wholesale SOR contracts after 31 December 2024. The SC-STs has also set out supplementary guidance, to help market participants price the conversion of wholesale SOR contracts to SORA for the current period until 31 December 2024. For further details of the statement, kindly refer to Appendix section at the end of this write-up.

What Is The MAS Recommended Rate (MRR)?

The MRR is the rate that will apply to wholesale SOR contracts after 31 Dec 2024, when Fallback Rate (SOR) will be discontinued.

The MRR is the sum of the relevant tenor’s compounded SORA in arrears and an MRR adjustment spread. This spread is calculated as the 5-year historical median (of SOR – compounded SORA) ending on 18 Jul 2022.

The SC-STs will publish further guidance, worked examples, as well as online calculators on the MRR spread adjustment around end Sep 2022.

Active Transitions Before 31 Dec 2024 Will Require A Reference Spot Spread (RSS)

The SC-STs views that MRR spreads will not be appropriate for active SOR to SORA transitions before 31 Dec 2024. Therefore, the supplementary guidance provides for a Reference Spot Spread (RSS) which is computed using more recent data.

The RSS is calculated as the 6-month historical median (of SOR – compounded SORA) ending on 18 Jul 2022.

The spread applied to a specific SOR to SORA transition will be determined by linearly interpolating between the MRR spread and RSS.

The SC-STs will publish further guidance, worked examples, as well as online calculators on the MRR spread adjustment around end Sep 2022.

Who Is Impacted?

Spread adjustments recommended by the SC-STS supplementary guidance can be applied to unhedged loans without negotiation.

Spread adjustments serve as starting point for negotiation in the case of bilateral and hedged loans. Agreed conversion should be concurrently performed for loan and derivatives.

Concluding Thoughts

SC-STS strongly encourages leveraging off this latest supplementary guidance to further progress on SOR to SORA transitions. Excessive reliance on contractual fallbacks should be the best practice. Where it is not feasible, participants should be aware of the implications when Fallback Rate (SOR) switches to MRR after 31 Dec 2022.

Additional Sources

[Media release](#) (18 Jul 2022)

[Response to consultation feedback](#) (18 Jul 2022)

Recent Publications

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[Singapore: MAS Does Another Off-Cycle Tightening On Inflation Concerns And Steady Economic Recovery. With 2Q GDP Growth At 0% q/q, 4.8% y/y](#), 14 Jul 2022

[Australia: Labour Market Tightens Further As Unemployment Rate Falls To 3.5%](#), 14 Jul 2022

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