BT Explains

A New Benchmark

The Singapore Overnight Rate Average (SORA) will soon replace the current Swap Offer Rate (SOR) as a benchmark for loans. Here's how SORA will be computed

THE Singapore Overnight Rate Average (SORA) is the average rate of unsecured overnight Singdollar (SGD) transactions done among banks.

By comparison, the Swap Offer Rate (SOR) is the effective rate of borrowing SGD synthetically, by borrowing USD and swapping for SGD. SOR is calculated with input from the USD LIBOR, an estimate of the wholesale funding rate of a panel of banks. LIBOR is due to be discontinued by the end of 2021, having been tarred by a manipulation scandal and amid criticism that the critical benchmark does not reflect actual transactions.

In Singapore, SORA has been chosen as the benchmark rate to replace SOR. It is determined to be a robust benchmark underpinned by a deep and liquid overnight interbank funding market. This means it is not susceptible to manipulation. The averaging effect of compounded SORA rates will also result in more stable rates.

To determine the interest rate of a SORA-based loan facility, the daily SORA rates are compounded in arrears and the interest rate is determined by the end of the relevant interest period. This is different from a SOR-based loan where the interest rate is determined at the start of the interest period.

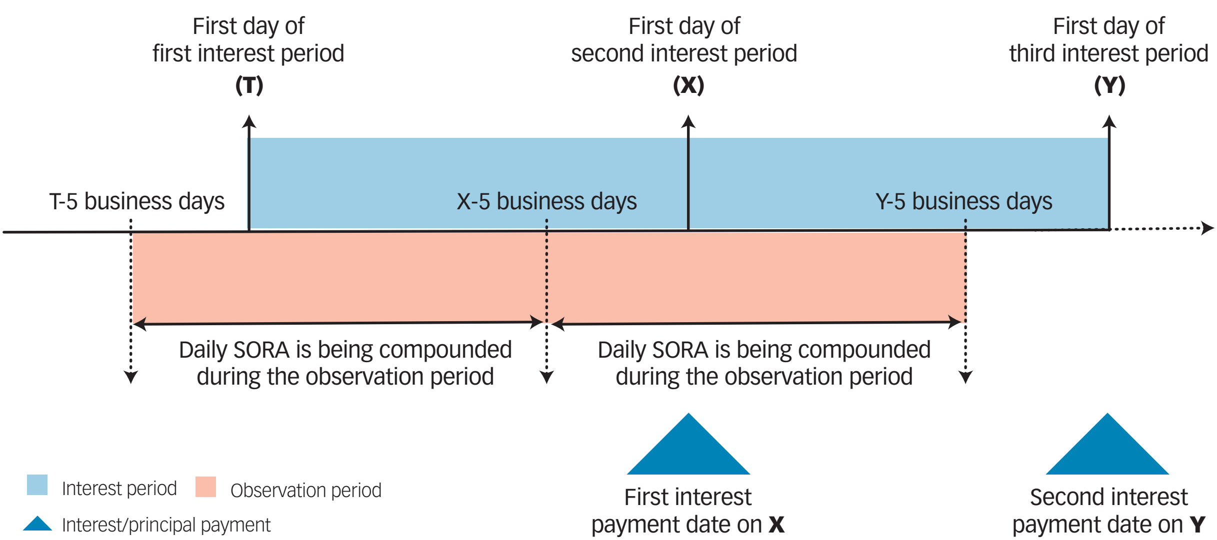
OCBC on Tuesday announced Singapore's first corporate loan that references SORA. The S$150 million three-year corporate loan to CapitaLand is part of a S$300 million sustainability-linked loan extended by OCBC to the property group. Proceeds from the loan facility will be used for general corporate purposes.

The bank will take the compounded average SORA rate that is calculated in arrears by using the historical daily SORA rate during a set observation period, and add a margin as determined by the bank.

For the borrower, the interest amount will be a product of the
(i) outstanding principal
(ii) compounded-in-arrears SORA and an applicable margin and
(iii) number of days in interest period divided by 365 days in a year.

The daily SORA rate is compounded during an observation period that starts from the fifth business day preceding the first day of the relevant interest period - inclusive of the T-5 day - but that excludes the fifth business day before the last day of such relevant interest period.

The interest payable will be determined after the end of the observation period and prior to the end of the interest period. The interest is payable on an agreed date. ***BY JAMIE LEE***



Source: OCBC, The Business Times BT Graphics