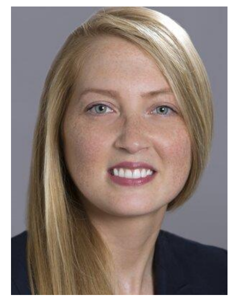
Navigating The Sunset Of Sibor And Other Key Benchmarks

By **Jeffrey Nagle, Danyeale Chung and Clay Talley** (February 7, 2024)

As we kick off 2024, the focus on the unavailability of certain benchmarks continues on.

Jeffrey Nagle

To refresh, we have already seen the benchmark for U.S. dollars generally replaced with the Secured Overnight Financing Rate, or Sofr, as administered by the Federal Reserve Bank of New York; the benchmark for sterling replaced with the Sterling Overnight Index Average, or Sonia, as administered by the Bank of England; and the benchmark for Swiss francs replaced with the Swiss Average Rate Overnight, or Saron, as administered by the SIX Swiss Exchange AG.



Danyeale Chung

Looking ahead, we expect to see the cessation of additional benchmarks including, but not limited to, the Canadian Dollar Offered Rate, or Cdor, and Singapore Interbank Offered Rate, or Sibor.

Canadian Dollars

On May 16, 2022, Refinitiv Benchmark Services Ltd., the administrator of Cdor, announced in a public statement that the calculation and publication of all tenors of Cdor will permanently cease immediately following a final publication on June 28, 2024.

Clay Talley

On July 27, 2023, the Canadian Alternative Reference Rate Working Group introduced a "no new Cdor" milestone as of Nov. 1, 2023. As a result, any new contracts — with the term "new" subject to some nuance and analysis — currently entered into or that may be denominated in Canadian dollars will need to use a benchmark other than Cdor.

The rate recommended by the Canadian Alternative Reference Rate Working Group, and most often seen as a replacement for Cdor, is a version of the Canadian Overnight Repo Rate Average, or Corra, which measures the cost of overnight general collateral funding in Canadian dollars using Government of Canada Treasury bills and bonds as collateral for repurchase transactions.

It is a so-called risk-free rate and is published daily by the Bank of Canada. Basically, Corra is the Canadian equivalent of Sofr.

Some markets — including a majority of the market for derivatives and some foreign markets — will likely transition to a compounded-in-arrears version of Corra. However, much like compounded daily Sofr, we have not seen much appetite for this complex rate structure in U.S. loan products.

For subscription facilities, a market consensus has developed to offer Corra as either a daily overnight rate, i.e., daily simple Corra, or a term rate, i.e., term Corra. Below we explain the differences between these rates and the potential impact going forward on fund finance deals.

Daily Simple Corra

Daily simple Corra is a daily overnight rate determined by sourcing and applying Corra daily in arrears, on a noncompounded basis, i.e., multiplying the rate by the outstanding principal only, and not on accrued unpaid interest.

This rate would reference a Corra that was published a set number of days prior to calculation, i.e., a look-back period. Daily simple Corra will work as a benchmark similarly to the other daily risk-free benchmark rates like daily simple Sofr, Sonia and Saron.

Term Corra

Term Corra is a forward-looking measurement of overnight Corra for one- and three-month tenors based on market-implied expectations from Corra derivatives markets. It is calculated by CanDeal Benchmark Administration Services Inc. from one- and three-month Corra futures trading on the Montreal Exchange using both transactions and executable bids and offers over a certain period. Similar to Cdor, term Corra will not offer any six-month tenors.

The Canadian Alternative Reference Rate Working Group has provided guidance on the allowable use cases for term Corra, which includes business loans, but does not include derivatives except in certain cases.

Credit Adjustment Spread

A credit adjustment spread, or CAS, may be recommended to be added to Corra to account for the rate difference between Cdor and Corra at similar tenors in subscription facilities. The static International Swaps and Derivatives Assocation CAS for a one-month Cdor equivalent is 29.547 basis points (0.29547%) and for a three-month Cdor equivalent is 32.138 basis points (0.32138%).

At this time it is unclear whether the International Swaps and Derivatives Assocation CAS or another CAS will become prevalent in the subscription facility market or whether the preferred approach for new transactions will be to incorporate the spreads into the applicable margin for Corra or to have the CAS listed separately from the applicable margin.

Implementation

One hiccup we are seeing while implementing Corra in loan documents is that certain lenders from an operational and/or policy perspective can only accommodate daily simple Corra or term Corra — but not both.

This has made it difficult in syndicated deals where one lender can only accommodate daily simple Corra while another can only accommodate term Corra.

Unfortunately, this puts the borrower in a difficult position of having to face the decision of, on one hand, not having the ability to borrow in Canadian dollars and being forced to either repay loans denominated in Canadian dollars or having loans denominated in Canadian dollars convert to reference rate or, on the other hand, potentially yanking the lender from the deal that cannot make the accommodation and no longer having the lender's commitment available. The administrative agent is also in a difficult position of pushing lenders to seek an exception, to the extent feasible.

Singapore Dollars

Sibor and the Swap Offer Rate, or SOR, are interest-rate benchmarks that have historically been used for Singapore dollars. Sibor and SOR are both typically forward-looking rates. On June 30, 2023, SOR was discontinued for all tenors.

Sibor is administered by ABS Benchmarks Administration Co. Pte. Ltd., with Refinitiv as the calculation agent. On July 29, 2020, the Association of Banks in Singapore, the Singapore Foreign Exchange Market Committee and the Steering Committee for SOR and Sibor Transition to Sora jointly issued a report that recommended the discontinuation of Sibor in order to transition to the Singapore Overnight Rate Average, or Sora.

Following feedback, ABS, the Singapore Foreign Exchange Market Committee and the steering committee determined that as of Dec. 31, 2024, one-month and three-month Sibor will be discontinued. When six-month SOR was discontinued, it triggered the cessation of six-month Sibor three months later on March 31, 2022. Twelve-month Sibor was discontinued on Dec. 31, 2020.

Sora

Sora is the volume-weighted average rate of borrowing transactions in the unsecured overnight interbank cash market in Singapore. The Monetary Authority of Singapore has published Sora since July 1, 2005. The authority publishes an overnight rate as well as compounded Sora with one-month, three-month and six-month tenors. The authority also provides the formula used to calculate compounded Sora, which is based on daily Sora.

Credit Adjustment Spread

The Steering Committee for SOR and Sibor Transition recommended that the CAS be based on the five-year historical median spreads between Sibor and compounded Sora, noting in a paper published on June 30, 2023, that it is aligned to the international convention adopted for the transition of Libor and other interest rate benchmarks and the transition of SOR wholesale contracts.

The CAS for a one-month Sibor equivalent is 20.59 basis points (0.2059%) and for a three-month Sibor equivalent is 35.71 basis points (0.3571%).

As with Corra, it is unclear whether the foregoing CAS or another CAS will become prevalent in the subscription facility market or whether the preferred approach for new transactions will be to incorporate the spreads into the applicable margin for Sora or to have the CAS listed separately from the applicable margin.

Implementation

Singapore dollars are a much less popular currency used in fund finance transactions. In general we have seen borrowers and lenders take the approach of removing Singapore dollars as an available currency as opposed to spending the time and money to update the benchmark.

Conclusion

In the case of both Cdor and Sibor, the cessation deadlines are quickly approaching, and existing facilities denominated in Canadian dollars and Singapore dollars will often need to be amended to replace Cdor and Sibor as a benchmark. This process should be very familiar to readers as it is playing out very similarly to Libor transition.

Jeffrey Nagle is a partner and head of corporate and commercial finance at Cadwalader Wickersham & Taft LLP.

Danyeale Chung is a partner at the firm.

Clay Talley is an associate at the firm.