2024 Update on the Cessation of CDOR and SIBOR

Article By:

Jeffrey Nagle

Danyeale Chung

Clay Talley

As we kick off 2024, the focus on the unavailability of certain benchmarks continues on. To refresh, we have already seen the benchmark for US Dollars generally replaced with the Secured Overnight Financing rate as administered by the Federal Reserve Bank of New York, Sterling replaced with the Sterling Overnight Index Average as administered by the Bank of England and Swiss Francs replaced with the Swiss Average Rate Overnight as administered by the SIX Swiss Exchange AG. Looking ahead, we expect to see the cessation of additional benchmarks including, but not limited to, the Canadian Dollar Offered Rate ("CDOR") and Singapore Interbank Offered Rates ("SIBOR").

Canadian Dollars

On May 16, 2022, Refinitiv Benchmark Services (UK) Limited, 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 Friday, June 28, 2024. On July 27, 2023, the Canadian Alternative Reference Rate working group ("CARR") introduced a "no new CDOR" milestone as of November 1, 2023. As a result, any new contracts (with "new" subject to some nuance and analysis) currently entered into that are or may be denominated in Canadian dollars will need to use a benchmark other than CDOR.

The rate recommended by CARR, and most often seen as a replacement for CDOR, is a version of the Canadian Overnight Repo Rate Average ("CORRA"). CORRA 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 US loan products. For subscription facilities, a market consensus has developed to offer CORRA as either a daily overnight rate ("Daily Simple CORRA") or a term rate ("Term CORRA"). Here 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 non-compounded 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 lookback period). Daily Simple CORRA will work as a benchmark similarly to the other daily risk-free benchmark rates (i.e. Daily Simple SOFR, SONIA and SARON as the primary examples).

Term CORRA

Term CORRA is a forward-looking measurement of overnight CORRA for 1- and 3-month tenors based on market-implied expectations from CORRA derivatives markets. It is calculated by CanDeal Benchmark Administration Services Inc. from 1- and 3-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 6-month tenors. The CARR 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 ("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 ISDA CAS for 1-month CDOR equivalent is 29.547 basis points (0.29547%) and for 3-month CDOR equivalent is 32.138 basis points (0.32138%). At this time it is unclear whether the ISDA 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, one 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 ("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 ("ABS"), the Singapore Foreign Exchange Market Committee ("SFEMC") and the Steering Committee for SOR & SIBOR Transition to SOFRA ("SC-STS") jointly issued a report that recommended the discontinuation of SIBOR in order to transition to the Singapore Overnight Rate Average ("SORA"). Following feedback, ABS, SFEMC and SC-STS determined that as of December 31, 2024, 1-month and 3-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. 12-month SIBOR was discontinued on December 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 ("MAS") has published SORA since July 1, 2005. MAS publishes an overnight rate as well as compounded SORA with 1-month, 3-month and 6-month tenors. MAS provides the formula used to calculate compounded SORA, which is based on daily SORA.

Credit Adjustment Spread

SC-STS recommended that the CAS be based on the five-year historical median spreads between SIBOR and compounded SORA, noting in a paper published by SC-STS 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 1-month SIBOR equivalent is 20.59 basis points (0.2059%) and for a 3-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 is 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 our readers as it is playing out very similarly to LIBOR transition.

National Law Review, Volume XIV, Number 26