P.R.I.M.E. Finance
Panel of **R**ecognized **I**nternational **M**arket **E**xperts in **Finance**

Benchmark and Benchmark Transition: the Legal Issues and the Role of Experts in Assessing them

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Economics of Benchmark Manipulation

OVERVIEW

- Market manipulation is in vogue with allegations across interest rates, currencies, gold, palladium, oil, biofuels, aluminum and many other commodities
- Global bank traders are directly involved in the manipulation
- Why is there an abundance of market manipulation to move prices given the challenges
- It's not the price of the commodity that matters; it's the benchmark!

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Economics of Benchmark Manipulation

WHY BENCHMARKS?

- Price benchmarks represent prices
- Increasing reliance on benchmarks has made them attractive target for manipulators
- Benchmarks hardwired into relationships; manipulating the benchmark pays off just as well as manipulating the underlying
- Benchmarks attempt to summarize a whole market from a subset of market information
- Manipulator can more easily bias the price of the benchmark by: i) concentrating or omitting trades benchmark tabulates; ii) fabricating trade data or iii) exercising discretionary control over benchmark data

Economics of Benchmark Manipulation

EXAMPLES

- ***LONDON FIX-*** Represents average price of FX trades on the Thompson Reuters electronic brokerage during 60 seconds of trading; primarily trades of a dozen large banks; price hardwired into the value of multi-trillion dollars in trades; British regulator called the manipulation of the London fix "biggest series of quantifiable wrong doing in the history of the financial services industry"
- ***LIBOR*-RATES** are set for 10 currencies and 15 borrowing periods and published daily at 11:30 AM; the rate the submitting banks would "expect to pay" for an interbank loan; in excess of $350 Trillion notional in derivatives hardwired to LIBOR; banks manipulated the rate by:
  - i) CONSPIRING WITH LIBOR RATE SETTERS WITHIN THE BANK;
  - ii) COLLUDED WITH OTHER BANKS ON THE LIBOR SETTING; AND
  - iii) BRIBED INTERDEALER BROKERS TO CONVINCE OTHER BANKS TO MAKE FAVORABLE LIBOR SUBMISSIONS.

  UBS admitted its traders manipulated the banks submissions, colluded with other banks and UBS traders had direct responsibility for the banks' submissions (a direct conflict with their own trading books); Barclays admitted that at various times it provided Libor submissions that were false because they improperly took into account the trading positions of its derivatives traders or reputational concerns about negative media related to its submissions.

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FAILURES IN THE SYSTEM

- Lack of regulatory oversight; cozy relationship between bank regulators and banks they regulate
- Robust bank board governance, management oversight and risk management
- The reckless banker, lack moral/ethical conviction, herd mentality and compensation incentives
- NO SERIOUS IMPLICATIONS TO THE TRADER, AKA JAIL TIME