

P.R.I.M.E. Finance

Panel of Recognized International Market Experts in Finance



Benchmarking Update

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LIBOR History

- 1960s - Banks start offering short term Eurodollar deposits
- 1969 - First syndicated loan priced to reference bank short term interest rates
- 1970s - Syndicated loans priced to reference bank rates proliferate
- 1981 - CME introduces cash settled 90 day Eurodeposit interest rate futures contract
- 1980s - Interest rate swaps grow in popularity; trading fueled by use of futures contracts for hedging and pricing
- 1986 - British Bankers Association begins administering LIBOR setting process



LIBOR History

- 2008 - WSJ reports on "understatement of LIBOR" during credit crisis. "LIBOR is in many ways the rate at which banks do not lend to each other." (Governor of the Bank of England)
- 2012 - LIBOR under regulatory scrutiny; fines paid; criminal investigations active; civil class actions filed
- 2013 - LIBOR determination reduced from 10 currencies to 5, and from 15 maturity buckets to 7.
- 2014 - (Jan) ICE takes over administration of daily LIBOR determination; (Dec) Alternative Reference Rates Committee (ARRC) convened by US banking and regulatory authorities
- 2017 - The interest rate on an estimated \$350 trillion in assets are either based

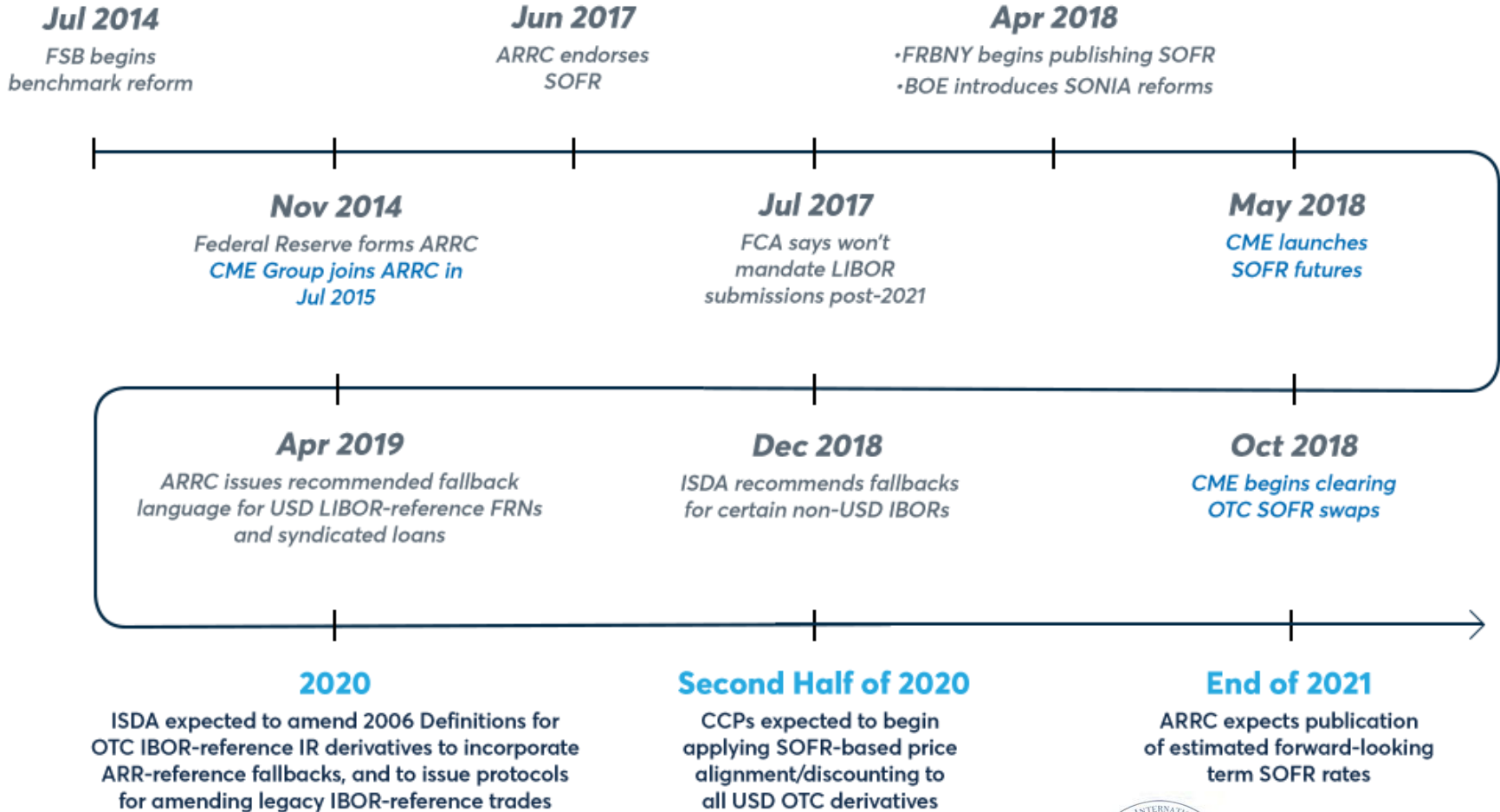


Problems with LIBOR

- Rate setting process proved subject to manipulation
 - ✓ Over \$6 billion in fines paid to regulators since 2012.
- BUT manipulation was the result of some structural deficiencies
 - ✓ **Lack of liquidity** in underlying deposit markets made the quoting banks dependent on models of yield curve structure rather than on actual transactions, which left the system prone to false quotations by participating banks.
 - ✓ **Lack of transparency** hid the true cost of borrowing even for the more liquid points on the yield curve
 - ✓ **Internal controls** and compliance functions were not focused on daily rate setting practices



SOFR Implementation Timeline



Alternative Reference Rates by Currency

Overview of identified alternative RFRs in selected currency areas

Table 1

	United States	United Kingdom	Euro area	Switzerland	Japan
Alternative rate	SOFR (secured overnight financing rate)	SONIA (sterling overnight index average)	ESTER (euro short-term rate)	SARON (Swiss average overnight rate)	TONA (Tokyo overnight average rate)
Administrator	Federal Reserve Bank of New York	Bank of England	ECB	SIX Swiss Exchange	Bank of Japan
Data source	Triparty repo, FICC GCF, FICC bilateral	Form SMMD (BoE data collection)	MMSR	CHF interbank repo	Money market brokers
Wholesale non-bank counterparties	Yes	Yes	Yes	No	Yes
Secured	Yes	No	No	Yes	No
Overnight rate	Yes	Yes	Yes	Yes	Yes
Available now?	Yes	Yes	Oct 2019	Yes	Yes

FICC = Fixed Income Clearing Corporation; GCF = general collateral financing; MMSR = money market statistical reporting; SMMD = sterling money market data collection reporting.

Sources: ECB; Bank of Japan; Bank of England; Federal Reserve Bank of New York; Financial Stability Board; Bank of America Merrill Lynch; International Swaps and Derivatives Association.

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Issues Remain

- Will the new benchmarks be viewed as Fallbacks or Alternatives?
- Can term structure issues be resolved?
- Will users of products accept an overnight pricing benchmark instead of a term rate?



Thank you



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