



RIMES LIBOR Discussion

May 13, 2021



LIBOR – What is it?



- London Interbank Offered Rate
- LIBOR – Self-reported short-term interest rate based on inputs from major London banks; represents interest rate a bank would pay for unsecured inter-bank lending
- 11-16 contributor banks (depending on currency/tenor)
- Calculated for USD, GBP, EUR, CHF, JPY
- 7 tenors per currency
- Currently published by ICE; formerly British Bankers' Association



LIBOR – How is it used?



- Important benchmark/reference rate for interest rates
- Used for interest rate derivatives, business & consumer loans, mortgages & mortgage-backed securities, floating rate notes, bond pricing
- Often used to represent cash in a blended benchmark
- Used as input into valuation / pricing / risk models
- Total exposure: USD LIBOR = ~\$223 trillion; all LIBOR = ~\$400 trillion
- Spread vs. LIBOR – Measure of investor sentiment



LIBOR



- Does your firm use LIBOR? In what context?
- If your firm doesn't use LIBOR as a cash benchmark, what do you use? Why?
- Do you hold investments linked to LIBOR (floating rate bonds, interest rate swaps, etc.)?



LIBOR Scandal



Financial Conduct Authority



Benchmark fines

| | |
|---|-------|
| Barclays FX failings (May 2015) | £284m |
| UBS FX failings (Nov 2014) | £234m |
| Deutsche Bank Libor and Euribor failings (Apr 2015) | £227m |
| Citibank FX failings (Nov 2014) | £226m |
| JPMorgan Chase Bank FX failings (Nov 2014) | £222m |
| RBS FX failings (Nov 2014) | £217m |
| HSBC FX failings (Nov 2014) | £216m |
| UBS Libor failings (Dec 2012) | £160m |
| Rabobank Libor failings (Oct 2013) | £105m |
| Lloyds Bank of Scotland Libor and BBA Repo failings (Oct 2014) | £105m |
| RBS Libor failings (Feb 2013) | £87m |
| Barclays Libor failings (Jan 2012) | £60m |

Libor fines

Deutsche Bank was fined a record \$2.5 billion for its role in a scam to manipulate the London Interbank Offered Rate (Libor)

| | | FCA | DOJ | CFTC | NYDFS | EC | FINMA | DPP |
|---------------------------|-----------|-----|-----|------|-------|----|-------|-----|
| Deutsche Bank (2013, '15) | \$3.5 bln | ✓ | ✓ | ✓ | ✓ | ✓ | | |
| UBS (2012) | 1.5 | ✓ | ✓ | ✓ | | | ✓ | |
| RBS (2013) | 1.1 | ✓ | ✓ | ✓ | | ✓ | | |
| Rabobank (2013) | 1.0 | ✓ | ✓ | ✓ | | | | ✓ |
| Societe Generale (2013) | 0.603 | | | | | ✓ | | |
| Barclays (2012) | 0.453 | ✓ | ✓ | ✓ | | | | |
| Lloyds* (2014) | 0.370 | ✓ | ✓ | ✓ | | | | |
| JPMorgan (2013) | 0.108 | | | | | | ✓ | |
| ICAP (2013, 2015) | 0.104 | ✓ | | ✓ | | ✓ | | |
| Citigroup (2013) | 0.095 | | | | | | | |
| RP Martin (2013, 2014) | 0.003 | ✓ | | ✓ | ✓ | | | |

FCA: Financial Conduct Authority, DOJ: U.S. Department of Justice, CFTC: U.S. Commodity Futures Trading Commission, NYDFS: New York State Department of Financial Services, EC: European Commission, FINMA: Swiss Financial Market Supervisory Authority, DPP: Dutch Public Prosecutor.

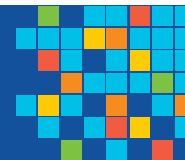
Source: Reuters *Part of the Lloyds' fine related to attempted manipulation so-called "repo" rates

V. Flasseur, 23/04/2015





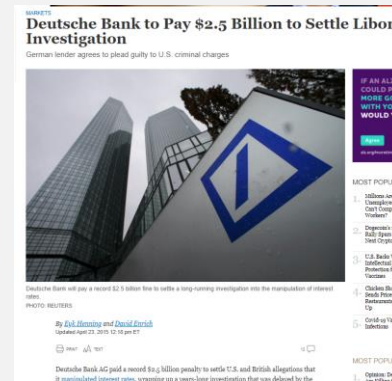
LIBOR Scandal



- Self-reported rates; not based on actual transaction data
- Falsely inflating/deflating rates to profit from transactions
- Collusion between banks and inter-dealer brokers
- Deutsche Bank → Fined \$3.5 billion
- Administration of LIBOR transitioned to ICE in 2014
- FCA – LIBOR to be discontinued by 2021

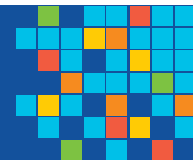
"OK, I will move the curve down 1 basis point, maybe more if I can."

"I need you to keep it as low as possible...if you do that...I'll pay you, you know, \$50,000, \$100,000 dollars...whatever you want"





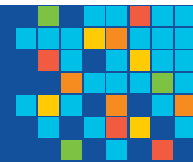
LIBOR Scandal



- Were you directly impacted by the LIBOR scandal?



LIBOR Transition



- USD → To be discontinued June 2023 (existing contracts only)
 - No new LIBOR-based contracts after December 2021
- EUR/GBP/CHF/JPY – To be discontinued December 2021
- USD → Secured Overnight Financing Rate (US Federal Reserve)
- GBP → Sterling Overnight Interbank Average Rate (Bank of England)
- EUR → €STR - Euro Short-Term Rate (European Central Bank)
- JPY → Tokyo Overnight Average Rate (Bank of Japan)
- CHF → Swiss Average Rate Overnight (SIX Group)



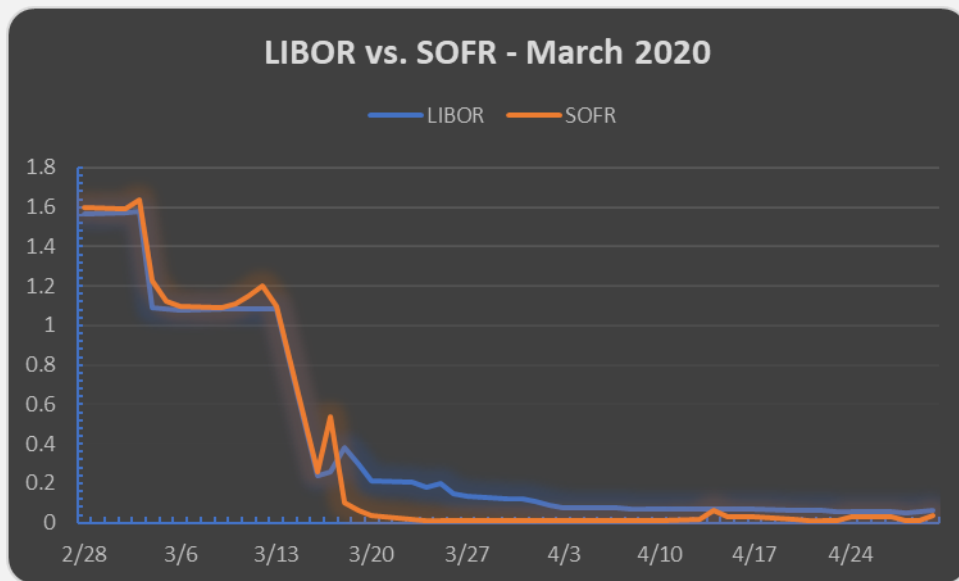
LIBOR Transition



- Has your firm selected a replacement for LIBOR? If so, why did you choose one rate over the other?
- How have you addressed the fact that SONIA or SOFR are only overnight rates?



Secured Overnight Financing Rate (SOFR) & LIBOR





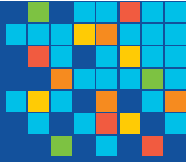
Secured Overnight Financing Rate (SOFR) & LIBOR



| LIBOR | SOFR |
|---------------------------|-----------------------|
| “Expert judgment” | Based on transactions |
| Unsecured interbank loans | US Treasury repos |
| Seven tenors | Overnight |
| Forward-Looking | Backward-Looking |



LIBOR



- What are your LIBOR transition plans and timelines?
- What have you struggled with?
- Have you completed your transition?
- Do you expect to see benefits from transitioning to a new rate?



LIBOR





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