

# Why We Need Better Financial Benchmarks

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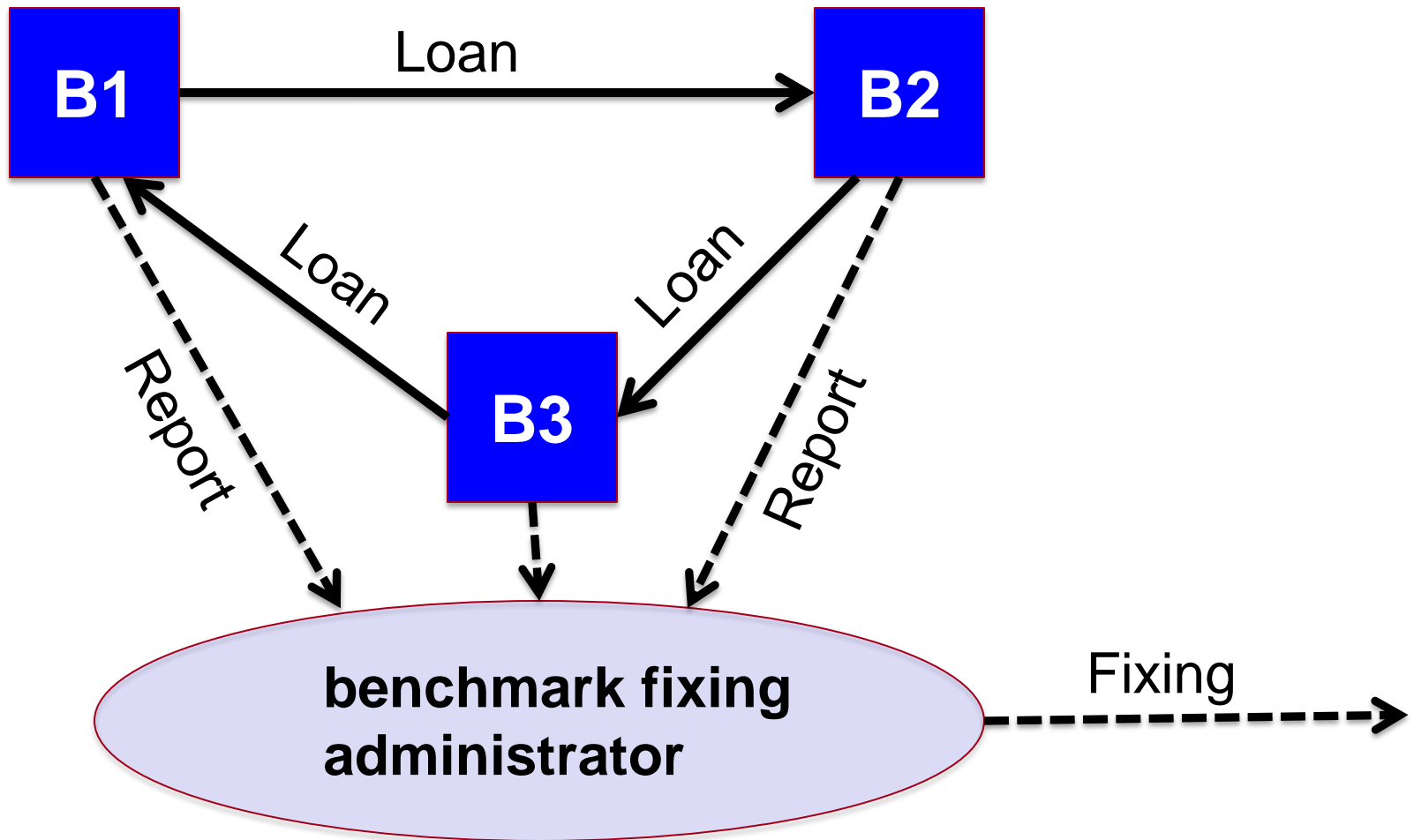
# Key benchmark functions

Contractibility for price-contingent claims.

Monitoring agent-based trade execution.

Pre-trade price transparency.

# Legacy IBOR fixing method



# USD LIBOR and EURIBOR footprint

Category	U.S. (USD billions)	LIBOR fraction	Eurozone (USD billions)	EURIBOR fraction
<b>Syndicated loans</b>	3400	97%	535	90%
<b>Bilateral corporate loans</b>	1650	approx. 40%	4322	60%
<b>Residential mortgages</b>	9608	15%	5073	28%
<b>Floating rate notes</b>	1470	84%	2645	70%
<b>Interest rate swaps</b>	106700	65%	137553	high
<b>Exchange IR derivatives</b>	32900	93%	17300	100%

Source: Market Participants Group (2014)

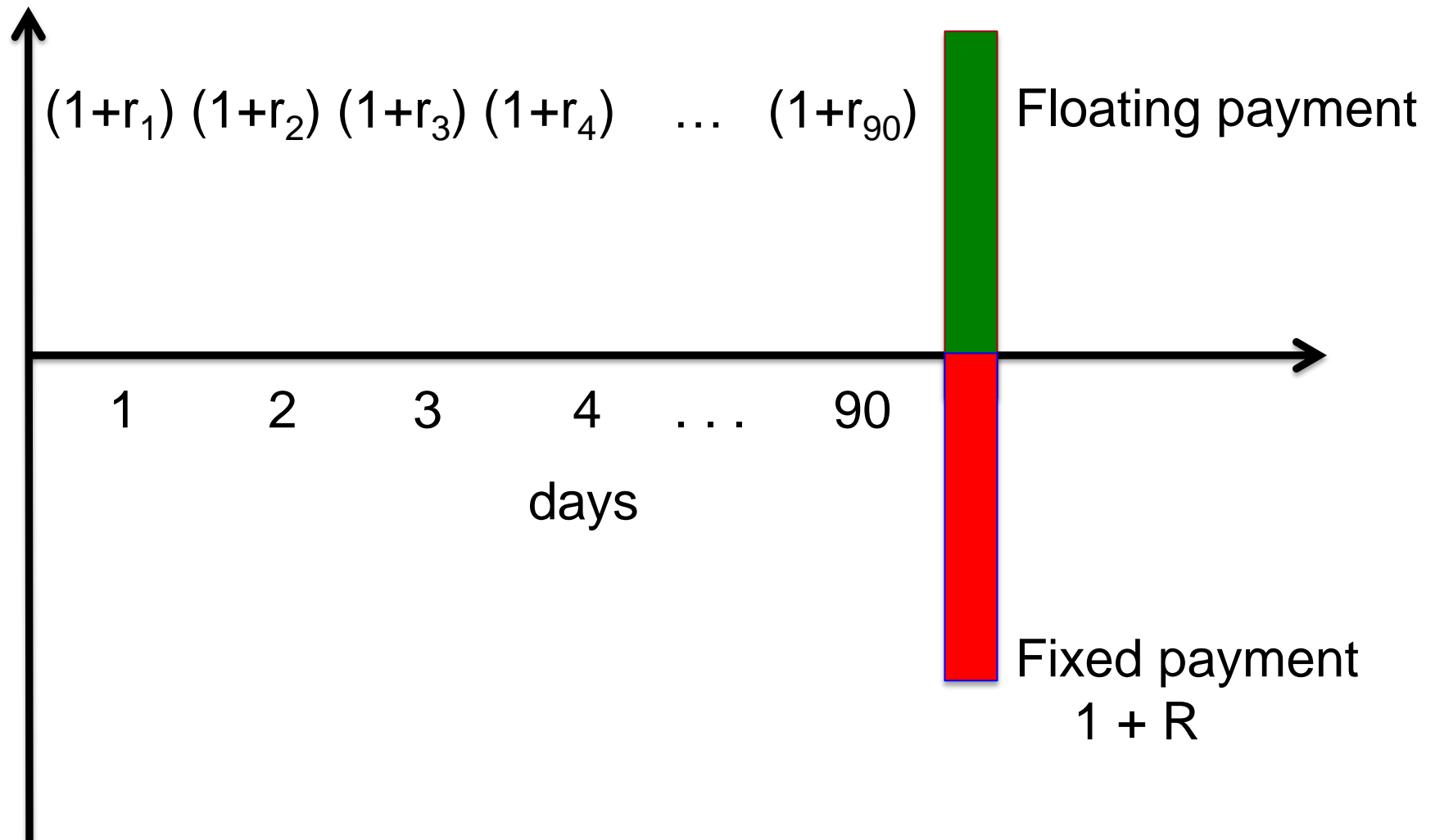
# FSB Proposed Reform of IBORs

## 1. New “IBOR+” transactions-based fixings.

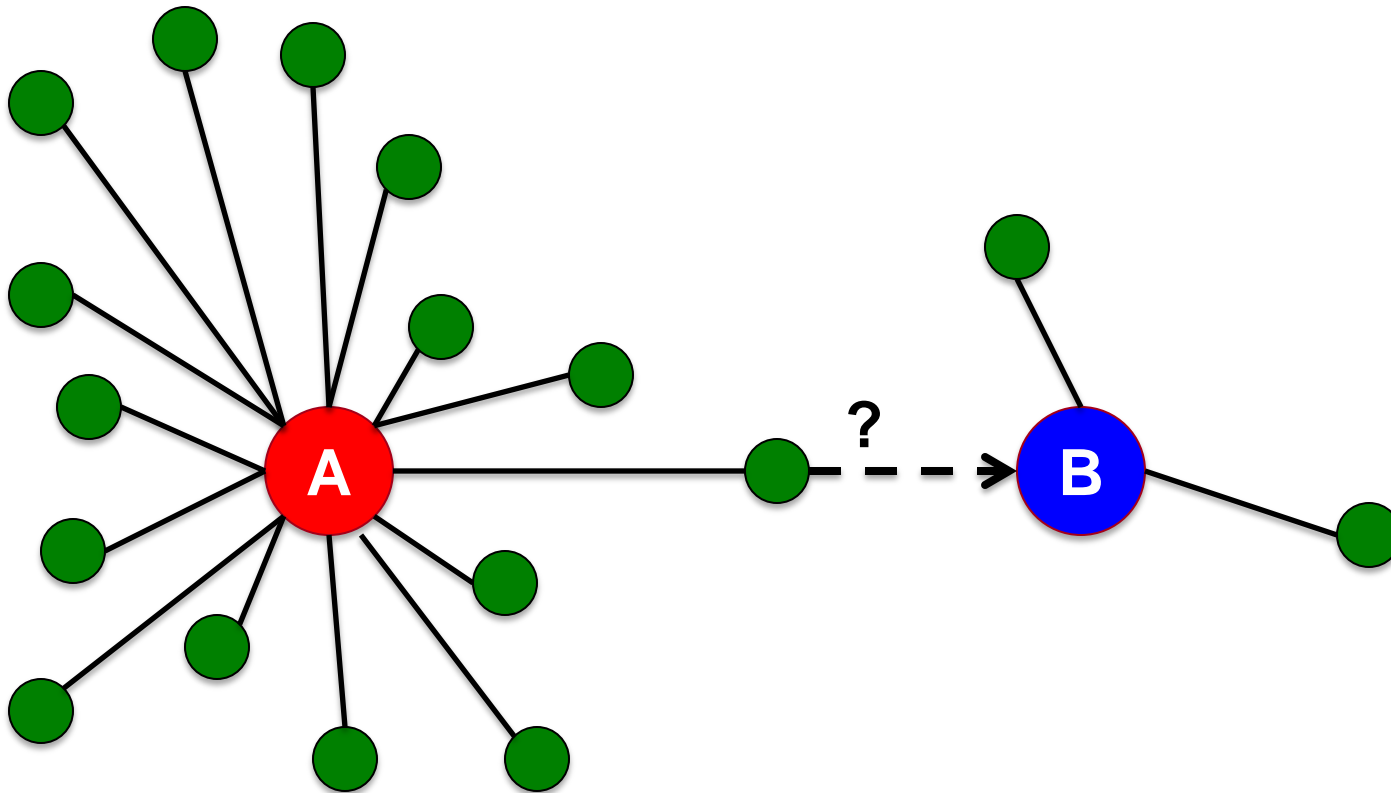
- Capture all wholesale unsecured bank borrowings.
- Include several lagged days of transactions.
- Seamless transition to new fixings where possible.

## 2. Transition of rates trading to new “risk-free” benchmarks.

# 90-day overnight index swap (OIS)



**If you build it, will they come?**



# Going Forward

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- Improving the robustness of LIBOR to manipulation remains a high priority, mainly because of the huge swap market that references LIBOR. The job is not complete.
- Finding suitable alternative reference rates is not nearly as difficult as getting market participants to adopt them.
- Contracts referencing IBORs should be changed by protocol to include plausible backstop rates.