The Importance of Reforming LIBOR and Other Benchmarks

Wednesday, April 13, 2016
4:30 pm to 5:30pm
Davis Auditorium
530 West 120th Street, 4th FL CEPSR
FOLLOWED BY A LIGHT RECEPTION
OPEN TO THE PUBLIC | REGISTRATION NOT REQUIRED

DR. DARRELL DUFFIE
DEAN WITTER DISTINGUISHED PROFESSOR OF FINANCE
STANFORD UNIVERSITY | GRADUATE SCHOOL OF BUSINESS

ABSTRACT:
Reliable benchmarks serve several important economic functions. The price transparency afforded by a good benchmark improves the ability of market participants to conduct comparison shopping. Second, benchmarks allow the customers of financial services firms to more easily monitor their delegated execution costs. Finally, benchmarks serve as settlement devices for related markets. Relying on a reference rate such as LIBOR, banks and derivatives exchanges can provide their clients with a rich set of floating-rate products, such as mortgages, corporate loans, swaps, forwards, swaptions, caps, floors.

I will describe the current situation in the reform of interest rate benchmarks, especially LIBOR, focusing on improvements in the LIBOR fixing method and the substitution of alternative reference rates for LIBOR in the interest rate derivatives market. The main concern here is the extremely heavy volume of swaps referencing LIBOR, relative to the volume of short term bank borrowing transactions that can be used to fix LIBOR.

BIOGRAPHY:
Darrell Duffie is the Dean Witter Distinguished Professor of Finance at Stanford University’s Graduate School of Business, and Professor (by courtesy) in the Department of Economics, Stanford University. He is a Fellow and member of the Council of the Econometric Society, a Research Fellow of the National Bureau of Economic Research, a Fellow of the American Academy of Arts and Sciences, and a member of the board of directors of Moodys Corporation. Duffie was the 2009 president of the American Finance Association. His recent books include How Big Banks Fail (Princeton University Press, 2010), Measuring Corporate Default Risk (Oxford University Press, 2011), and Dark Markets (Princeton University Press, 2012).