Has Bibor been subject to same manipulation as Libor?

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The recent Libor (London Interbank Offered Rate) scandal has undermined the confidence of financial services consumers, both institutional and individual, around the globe.

Local authorities in collaboration with bankers' associations in each country have begun revising the fixing of short-term reference rates (or interbank rates fixing) to ensure justification of key references. This article probes the Thai financial market for signs of such misconduct, and asks whether action by authorities is warranted.

What were the underlying reasons behind the Libor rigging? The panel of banks involved had been incentivised to submit rates well below transaction level to disguise their true cost of borrowing during the crisis and set rates in favour of their positions. The implication of the manipulation is two-fold: 1) the artificially low Libor rates rendered investors and lenders lower returns on their money and; 2) Libor rates submitted can no longer be perceived as a reliable credit-risk measurement tool for market participants.

Concerted action has been taken by officials and banking associations to find ways to restore the confidence in Libor and other similar local rate-fixing mechanisms, ranging from the idea of adopting actual rates rather than quoted rates, to including a larger number of banks so the rate more closely reflects market reality. There is also a proposal to adopt a new, more randomised rate-fixing method to prevent manipulation via the trimming the of the highest and lowest quoted rates. Meanwhile, more radical thoughts include finding a new reliable rate-fixing method, with the Australian bank bill swap rates (BBSW) mentioned as an example. In the European market, EONIA (the European Overnight Index Average) might also regarded as a possible alternative.

At this point, it is worth drawing attention to the Thai money market, and whether its reference rates have been subject to such manipulation. The two main indices of relevance are the THBFIX (the implied baht interest rate derived from US dollar/baht swaps), and the Bibor (Bangkok Interbank Offered Rate). The THBFIX is determined by the interest-rate differential, in which dollar liquidity around the world has tremendous influence. It is, therefore, by itself not a direct representation of baht liquidity, and even less so in times of a global dollar liquidity squeeze.

As for Bibor, though it is at an early stage of development, it should reflect baht liquidity in the system. This led us to look at the Bibor more closely, and several reasons were found to support the notion that the Bibor has retained its integrity.

First, the Bibor is a baht interest rate and baht liquidity in the Thai financial system itself has not been directly affected by recent global crises, unlike the US dollar Libor which has been severely hit by the US sub-prime mortgage and the European public debt distress. In addition, baht liquidity is still ample and the market has been trading lower than the Bibor rate, while the picture of the Libor is the opposite. Hence, the motivation for panel banks to misquote in the case of Bibor and Libor are different.

Second, money market managers in Thailand are increasingly aware of the drawbacks of adopting the THBFIX as a reference rate, and are seeking an alternative benchmark free of global dollar liquidity influence and under close central bank surveillance to ensure reliability. The Bibor has thus risen to prominence, with efforts from various parties to make it a credible and widely accepted benchmark for baht liquidity. Seventeen panel banks in collaboration with the Bank of Thailand (BOT) have committed to this aim by extending baht liquidity management from overnight to longer-term transactions of, for instance, three months. The persistent effort in constructing a reliable benchmark has yielded some results as term transaction volume referencing Bibor has seen a remarkable rise since 2011.

Along with the development, the BOT has been actively monitoring the Bibor rate and term transactions. Should erratic patterns of rate movement or transactions occur, the BOT would seek explanations from the market. Such a hands-on approach aims to strengthen accountability of panel banks and ensure credibility as well as reliability of the Bibor as a short-term reference rate for the Thai financial market.

Last but not least, since the Libor dispute hit the global agenda, internal compliance of Bibor contributing banks has been proactive to prevent a repeat of misconduct. As a result, internal guidelines and rules are issued to ensure traders are accountable for rates that they contribute. Apart from this, internal control has been strengthened by making the verification process mandatory.

It seems fair to conclude that the Bibor has been exposed to neither the manipulation nor the motivation of panel banks to misquote, as has the Libor. This will, hopefully, help ensure the confidence of Thai market participants in the Bibor as a reference.

Views expressed are the writer's own.

Note: the Libor (London Interbank Offered Rate) is an indicative average interest rate based on daily contributor banks' submissions to Thompson Reuters in response to the following question: "At what rate could you borrow funds, were you to do so by asking for and then accepting inter-bank offers in a reasonable market size just prior to 11am?" Thompson Reuters then calculates the Libor benchmark and distributes it to the market.

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