Beat: Business

Restoring confidence in the financial markets

Benchmarks and the manipulation

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USPA NEWS - Benchmarks are widely used to track market developments, however financial scandals involving benchmarks such as Libor and Eurobibor have shown that they are susceptible to manipulation. European Parliament prepare new rules.

The EP's economic committee votes on 31 March on new rules to ensure the full transparency of all benchmarks used in the EU. Dutch Alde member Cora van Nieuwenhuizen, who wrote the report with recommendations, said: “It is a major step forward in ensuring the future robustness and accuracy of benchmarks.“ Benchmarks are indices that measure the performance of something, from interest rates at the interbank market in London (Libor) or in the euro zone (Euribor), to commodities such as gold or crude oil and foreign exchange rates (euro against dollar or British pound against dollar).

They are often used as references in financial and commercial contracts, for example a mortgage interest rate may be determined as the Euribor rate plus a certain premium. For benchmarks to serve their purpose, they have to be seen as reliable and neutral. However, their daily value are often determined by the actions of a few big market players. In 2012-2013, authorities in Europe and the US carried out investigations into the manipulation of Libor and Euribor.

In December 2013, the European Commission fined eight banks a total of €1.7 billion for taking part in illegal cartels seeking to influence Libor and Euribor. Several more banks were fined for similar offences in 2014. The Parliament´s report seeks to clearly distinguish between critical, or systemically important, and less critical benchmarks in order not to needlessly increase the work of administrators of smaller indices. However, critical benchmarks that track a large volume of trade will have to comply with principles set out by the International Organisation of Securities Commissions (IOSCO) about how they are produced and calculated.

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