LIBOR

- The LIBOR is a benchmark rate that large banks use to charge each otters for short term loans. The LIBOR serves seven different maturities: overnight, one week, and 1, 2, 3, 6 and 12 months. The most commonly quoted rate is the three-month U.S. dollar rate.
- LIBOR or ICE LIBOR's primary function is to serve as the benchmark reference rate for debt instruments, including government and corporate bonds, mortgages, student loans, credit cards; as well as derivatives, such as currency and interest swaps, among many other financial products.
- The LIBOR would work like this, a Swiss franc-denominated Floating-Rate Note (or floater) that pays coupons based on LIBOR plus a margin of 35 basis points (0.35%) annually. In this case, the LIBOR rate used is the one-year LIBOR plus a 35 basis point spread. Every year, the coupon rate is reset in order to match the current Swiss franc one-year LIBOR, plus the predetermined spread. If, for instance, the one-year LIBOR is 4% at the beginning of the year, the bond will pay 4.35% of its par value at the end of the year.
- Another prominent trait of LIBOR or ICE LIBOR is that it helps to evaluate the current state of the world's banking system, as well as to set expectations for future central bank interest rates.
- From around 2003 to 2008 some of the worlds largest banks fixed the rate in order to keep the LIBOR rate artificially low.
- There are plans to phase the LIBOR out by 2021 due to lack of confidence and large enough transactions to create an accurate benchmark. There are currently working groups trying to come up with alternative rates that can be used as benchmarks. The Alternative Reference Rate Committee is studying potential replacements, and the leading proposal is the Broad Treasury Financing Rate, which would be based on a broad set of U.S. Treasury financing transactions. According to the Federal Reserve, these rates should be published sometime in the first half of 2018.