

Bye-bor

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By all accounts it was worth waiting for.

The 10th Procrastination Research Conference, held last month in Chicago, featured sixty professionals – mostly psychologists and behavioral economists – from around the world. Besides reviewing the latest findings in this unusual field, attendees discussed why so many people – one in five of us – qualify as procrastinators.

Even this high-level gathering was sensitive to the issue of putting off things until the last minute. “There’s no day-of registration,” the wife of the conference chair reported.

Speaking of delaying tactics, UK banking regulators announced in July that the London Interbank Offered Rate, also known as Libor, will be replaced. But not anytime soon. The financial industry has until 2021 to establish a new benchmark rate.

Begun in 1986 as an agreement among the top London banks, Libor averaged interest rates at which those banks were theoretically lending to each other. Its function initially was as a pricing gauge for corporate lending. But it quickly grew to encompass other financial instruments. At its peak of popularity, Libor was the benchmark rate for \$350 trillion of mortgages, derivatives, bonds, and leveraged loans.

As the financial crisis unfolded in early 2008, reports of the rate’s unreliability began to surface. With no underlying securities supporting the quoted rates, traders acted as a cartel, setting any rate they wanted, making millions off market movements of fractions of a point. This manipulation eventually cost banks almost \$10 billion in fines and penalties, as well as senior executives their jobs, and some prison sentences.

For veterans of leveraged loans, life without Libor seems unfathomable. Not only is the almost \$1 trillion broadly syndicated market based on it, but the biggest class of investors in those loans – CLOs – uses Libor to set the rate for investors in its vehicles. Over \$1.3 trillion of adjustable rate mortgages are still set to Libor. That’s 14% of the total US consumer mortgage market.

The LSTA spoke to this concern last month. In a statement Meredith Coffey, the association’s head of research and analysis, said “The LSTA will...ensure orderly transition to the new rate and develop appropriate language for credit agreements.”

But :what will the new rate look like, and who will monitor it? Any solution must tie the rate to transparently priced securities.

One industry group has suggested using a rate geared to repo trades, backed by government securities such as Treasury bonds. Then there’s the proposal from the Bank of England, based on a variant of the sterling overnight index average, or Sonia.

Four years certainly seems like plenty of time for bankers and regulators to come up with a workable Libor alternative. But with one in five of us out there procrastinating, we’re assuming decision makers may end up

waiting until the last minute.

From the Editor: The Lead Left will be on its annual August break and will return the week of September 4