

# MAS looking into the way Sibor is set

Move echoes that of other regulators around the world following Libor scandal

By MAGDALEN NG

THE way the local interest rate benchmark is set is being assessed by the authorities in the light of the Libor scandal engulfing British bank Barclays.

The Monetary Authority of Singapore (MAS) said yesterday that the move follows similar steps being undertaken by regulators around the world. A spokesman said: "Regulators in several international financial centres are looking into the setting of key market interest rate benchmarks by banks. MAS is doing the same in Singapore."

The process of how banks help set the rate has come under intense scrutiny in recent weeks following the scandal surrounding the Libor or London interbank offered rate.

Barclays and possibly other banks rigged the rate in the years after the financial crisis hit in 2007, potentially distorting a key financial instrument that affects millions of people and trillions of dollars worth of loans.

Barclays was fined a record £290 million (S\$571 million) last month.

The method used to set the Libor in Britain is similar to the one used for

the Sibor or Singapore interbank offered rate. Each day, contributing banks submit rates at which they think they can borrow from other banks. Financial news service Thomson Reuters collates the information, removes the top and bottom 25 per cent, then averages the rest to derive the day's Sibor.

The process is overseen by the Association of Banks in Singapore (ABS).

ABS director Ong-Ang Ai Boon said yesterday by e-mail: "The ABS conducted a review on the way Sibor is set last year. The governance and processes are in place and the process is reasonably robust and circumspect."

"Nevertheless, we will continue to be diligent and vigilant to ensure compliance with the governance and procedures."

One concern surrounding Sibor is that the number of banks taking part in the rate-setting process has fallen recently from 15 to 12. Royal Bank of Scotland has pulled out, while the Bank of America did not contribute to the rate panel on Monday.

ABS also named ING Bank as one of the contributors, but an ING spokesman clarified last night that it has not been contributing to Sibor



The number of banks contributing to the Sibor has fallen from 15 to 12, sparking concern that it may lead to a less reliable or stable benchmark interest rate. ST FILE PHOTO

since 2008 or earlier. ABS did not respond by press time about the discrepancy.

Some industry figures fear the reduced number of contributors may lead to a less reliable or stable benchmark interest rate.

However, Dr Aurobindo Ghosh, programme director at Singapore Management University's Sim Kee Boon Institute for Financial Economics, said: "An average over more banks is less variable, or is more stable."

"Having said that, it is easier to monitor fewer banks. So fewer banks might not necessarily make it easier to manipulate, particularly with the strong governance and monitoring in place."

Having 12 banks means the top and bottom three quotes are removed be-

fore the mean is calculated. Dr Ghosh said: "However, as there are now fewer than eight banks to average, ABS will provide at least two quotes from money brokers so Sibor is an average of at least eight quotes. This is according to ABS' past methodology."

US Federal Reserve chairman Ben Bernanke has said that the Libor system is structurally flawed. "It is a major problem for our financial system and for the confidence in the financial system. We need to address it," he said. Mr Bernanke, also revealed that US regulators had voiced their concerns about the Libor to the Bank of England and the British Bankers' Association as early as in May 2008.

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