Student’s Name

Instructor

Course

Due Date

The Spider Network

*Explain what this sentence means and include the major participants described in the book, “The LIBOR scandal was significant because of the central role the LIBOR played in global finance.” Also, what is replacing LIBOR as the measure of term and risk spreads?*

The importance of the London Interbank Offered Rate (LIBOR) to the global financial markets drew considerable attention to the LIBOR issue. The LIBOR is an interest rate used as a comparison point for financial contracts worth trillions of dollars, such as loans, mortgages, and derivatives. The LIBOR indicates the interest rate at which banks can borrow money from one another on the interbank market when calculating the interest rates on various financial instruments (Enrich 17). Therefore, it is an essential indication of the health of the global monetary system.

The banks responsible for setting the LIBOR interest rates were crucial in the LIBOR scandal. Among the names of these financial organizations were Barclays, UBS, Citigroup, JPMorgan Chase, and Deutsche Bank (Enrich 66). The traders at these banks who participated in the scheme conspired to inflate the LIBOR rates to increase their profits fraudulently. Brokers were also engaged in fraud since they permitted traders to influence the LIBOR rate fraudulently by increasing or decreasing it.

After its discovery in 2012, the fraud cost the participating institutions billions of dollars in penalties. In addition to diminishing public confidence in the banking industry, the event prompted proposals to modify the mechanism for determining benchmark interest rates (Enrich 294). Hence, the LIBOR is being replaced with new benchmark rates designed to be more transparent and less susceptible to manipulation.

Existing and potential replacements to LIBOR are currently under consideration. Federal Reserve Bank of New York is developing the Secured Overnight Financing Rate as a suggested remedy (SOFR). SOFR is generated from the Treasury repurchase market, which is regarded as more liquid and reliable than the LIBOR, derived from the market for unsecured interbank lending. The Sterling Overnight Index Average (SONIA), created by the Bank of England and based on actual transactions in the market for overnight unsecured lending, is another option (Schrimpf and Sushko 36). Furthermore, numerous governments are attempting to develop their own LIBOR alternatives. These rates are also affected by overnight transactions on the appropriate interbank credit markets.

Financial institutions and regulatory authorities will need to collaborate to complete the complex process of decoupling from LIBOR. Players in the market must examine the plethora of available alternative rates and change their operational processes and infrastructure as needed to accommodate the selected rate. All contracts, including those referencing the previous LIBOR rate, must reflect the new LIBOR rate. Although the transition is predicted to take several years, some estimates have the completion date as late as 2021.

Owing to the importance of LIBOR in international banking, the LIBOR crisis had a profound impact on the entire financial sector. As a result of the debate, which drew attention to the need for greater openness and accountability in generating benchmark rates, more reliable benchmark rates have been established. Despite the difficulty of this transition, abandoning LIBOR is necessary for the long-term success of the international monetary system.

*It's important to note that Libor needed to be set on what banks paid to borrow funds from each other. Instead, it was based on their submissions about what they thought they would pay. As a result, banks could submit lower rates and manipulate Libor fairly easily. Do you think this was a big deal since the process wasn't based on actual costs to the banks? Explain what you think and what Tom Hayes described in the book. You must provide both your point of view and explain Tom's position.*

Because so many different loans, mortgages, and other financial products use the LIBOR as a benchmark, LIBOR rate manipulation by banks is a severe issue with ramifications for the whole global economy. The rate has an impact on financial instrument pricing throughout the world, which has ramifications for the entire international financial system. Although LIBOR was based on bank submissions rather than their actual borrowing costs, it is crucial to understand how it was managed and its consequences.

Although the LIBOR was not based on actual borrowing costs, bank filings nonetheless had a substantial impact. Since banks could alter the submissions, the LIBOR rate was slanted and not representative of actual market circumstances. They engaged in illegal rate manipulation. As a result, increasing their profits. Owing to the distorted market pricing that this manipulation permitted, investors who relied on the LIBOR had their confidence exploited.

As a result, I think the manipulation of LIBOR constituted a significant issue with broad implications. Although LIBOR was not based on the true expenses borne by the banks, it was used to calculate the pricing of mortgages, loans, and derivatives. Hence, if banks could change the rate, they might make huge profits by artificially increasing or deflating the prices of these items. In my perspective, LIBOR tampering damaged the financial system and eroded the public's confidence in banks. Although the financial industry may see such practices as unethical and possibly illegal, banks were proved in the scandal to be ready to exploit their consumers and manipulate financial markets for financial profit.

Tom Hayes received a 14-year sentence after being found guilty of attempting to sway the LIBOR rate. Although found guilty, Hayes maintained that the government and regulatory bodies were unfairly targeting him for punishment (Enrich 244). Hayes is described as someone who thought manipulating the LIBOR rate was typical in the banking business and that he was simply a piece in a much greater scheme. He believed that LIBOR manipulation was a victimless crime required in the brutal world of banking. Hayes assumed that it was a usual process in the firm and that he was only being penalized. He further asserted that the flawed method for calculating LIBOR was the only reason Hayes abused the system. Hayes stated that he was doing it legitimately and was motivated to make more cash for his clients and company.

Although the LIBOR rate was not based on banks' actual borrowing costs, it considerably impacted the global monetary system, making its manipulation a significant problem. Rate manipulation hurt the banks' reputation with clients, skewed the market, and cost them a lot of fines and legal fees. Tom Hayes, who was significantly involved in the rate manipulation, felt that he had been unfairly singled out; nonetheless, because of the implications of his conduct, he was rightfully held responsible for the incident.

*What do you think Tom Hayes meant by saying, "They wanted to jail a banker – I was that banker"? Who is the "they", and why would they want to do this? What was going on at the time? Why him? Do you agree with the sentence and the appeal?*

The statement pertains to the fact that he was made a scapegoat for the LIBOR problem and that he was targeted by authorities who attempted to make an example out of him. The "they" in this sentence relates to different individuals and companies investigating and prosecuting the LIBOR scandal. It includes regulatory institutions such as the Financial Conduct Authority and the Serious Fraud Office, as well as law enforcement bodies such as the Metropolitan Police in the UK and the Department of Justice in the US (Enrich 244).

At the time of the LIBOR controversy, there was enormous public scrutiny and concern over the behaviour of banks in the lead-up to the 2008 financial crisis. The manipulation of LIBOR rates, which impacted trillions of dollars in financial transactions, was considered a particularly egregious example of unethical behaviour by banks. As a result, there was a strong desire by regulators and prosecutors to hold individuals accountable for their behaviour.

Nevertheless, the decision to target Tom Hayes particularly remains quite controversial. Some have suggested that he was a tiny player in the wider LIBOR affair and that other persons and institutions were equally, if not more, guilty of manipulating rates (Enrich 131). Others have pointed out that Hayes was a very apparent target because he had already been dismissed from his job at Citigroup and had a reputation for being difficult to work with. Hayes has argued that he was unfairly criticized and merely doing what everyone else in the industry was doing. In his judgment, manipulating LIBOR rates was simply part of the industry's mentality.

Regarding whether or not the statement "They wanted to imprison a banker, And I was that banker" is truthful, the reality is incredibly tough. Regulators and prosecutors greatly desired to hold persons accountable for the LIBOR affair, and Hayes was considered a prominent actor in manipulating rates (Enrich 88). Yet, it is also true that other individuals and institutions were implicated in the scandal and that Hayes may not have been the most guilty player. Therefore I agree with the statement and the appeal.

Whether or not one agrees with Hayes' comment relies heavily on one's perspective on the LIBOR episode. If one considers the manipulation of rates as a systematic issue that involved many different parties, then it may be difficult to argue that Hayes was unfairly targeted. But, if one considers Hayes as a relatively small player who was made a scapegoat for the affair, then his comment may sound truer. Besides, reality likely sits somewhere in between these two positions.

Works Cited

Enrich, David. “The Spider Network: The Wild Story of a Maths Genius and One of the Greatest Scams in Financial History.” *Google Books*, Ebury Publishing, 2017.

Schrimpf, Andreas, and Vladyslav Sushko. “Beyond LIBOR: A Primer on the New Benchmark Rates.” *Papers.ssrn.com*, 5 Mar. 2019, papers.ssrn.com/sol3/papers.cfm?abstract\_id=3348186.