

LIBOR's Poker

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Abstract

Recent LIBOR and ISDAfix manipulation scandals inspired discussions of survey-based benchmarks in financial markets. We investigate the survey as a principal-agent problem between the benchmark administrator and the banks, whose private signals follow a distribution unknown to the administrator. If the administrator imposes a harsh enough quadratic penalty, she can minimize banks' reporting errors. Further, although the banks' equilibrium reports vary with the borrowing cost distribution, the expected benchmark bias is distribution-free. Increasing the panel size and trimming more quotes improves the benchmark accuracy. The expected bias is not distribution-free under collusion.

Keywords: Principal-agent problem; Benchmarking; Mechanism design; LIBOR

JEL classification: D43, D44, D47, G10, G21

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