

# CBS – Unsecured Funding

A LOOK AT FUNDING PAST, AND FUTURE  
SEPTEMBER 2023



- It is produced for ten currencies with 15 maturities quoted for each - ranging from overnight to 12 months - thus producing 150 rates each business day.
- Is a benchmark giving an indication of the average rate at which a LIBOR contributor bank can obtain unsecured funding in the London interbank market for a given period, in a given currency. Individual LIBOR rates are the end-product of a calculation based upon submissions from LIBOR contributor banks, which are then averaged under a "trimmed mean" methodology.
- In the ISDA Authority's view, in economic terms, LIBOR is composed of:
  - 1) a measure of the expectation of RFRs over a fixed period; plus
  - 2) an adjustment reflecting bank credit risk and liquidity conditions in funding markets over the corresponding fixed period.

# Historical look at Cost of Funding spread

USD 3mth LIBOR (-) USD 3mth FedFunds

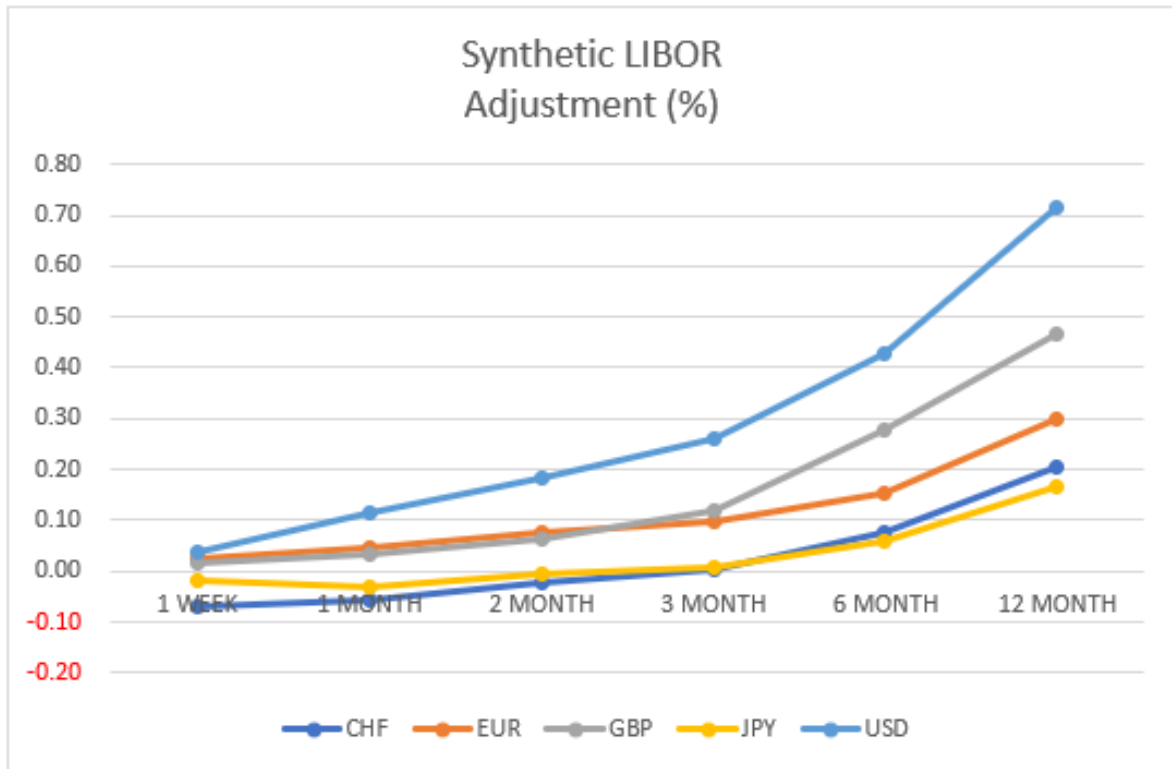


- Unsecured 3mth Term Funding (3mth LIBOR) VS. Unsecured O/N rolling Funding for 3mth (FF)
- High Volatility (even with astronomical excess liquidity in financial systems)
- **Average spread = +24bps**
- Max Historical spread (2008) = +363bps !!

# USD LIBOR

## Zombie – Dead & Alive

TENOR	SPREAD ADJUSTMENT (%)					TENOR
	CHF	EUR	GBP	JPY	USD	
1 WEEK	-0.07	0.02	0.02	-0.02	0.04	1 WEEK
1 MONTH	-0.06	0.05	0.03	-0.03	0.11	1 MONTH
2 MONTH	-0.02	0.08	0.06	-0.00	0.18	2 MONTH
<b>3 MONTH</b>	<b>0.00</b>	<b>0.10</b>	<b>0.12</b>	<b>0.01</b>	<b>0.26</b>	<b>3 MONTH</b>
6 MONTH	0.07	0.15	0.28	0.06	0.43	6 MONTH
12 MONTH	0.20	0.30	0.46	0.17	0.72	12 MONTH



- USD LIBOR discontinued from 30 Sept 2024
- Legacy continuation priced by ISDA as:  
Fixed Spread Adjustment  
versus  
a RiskFreeRate (SOFR)
- **USD 3mth = +26bps spread**

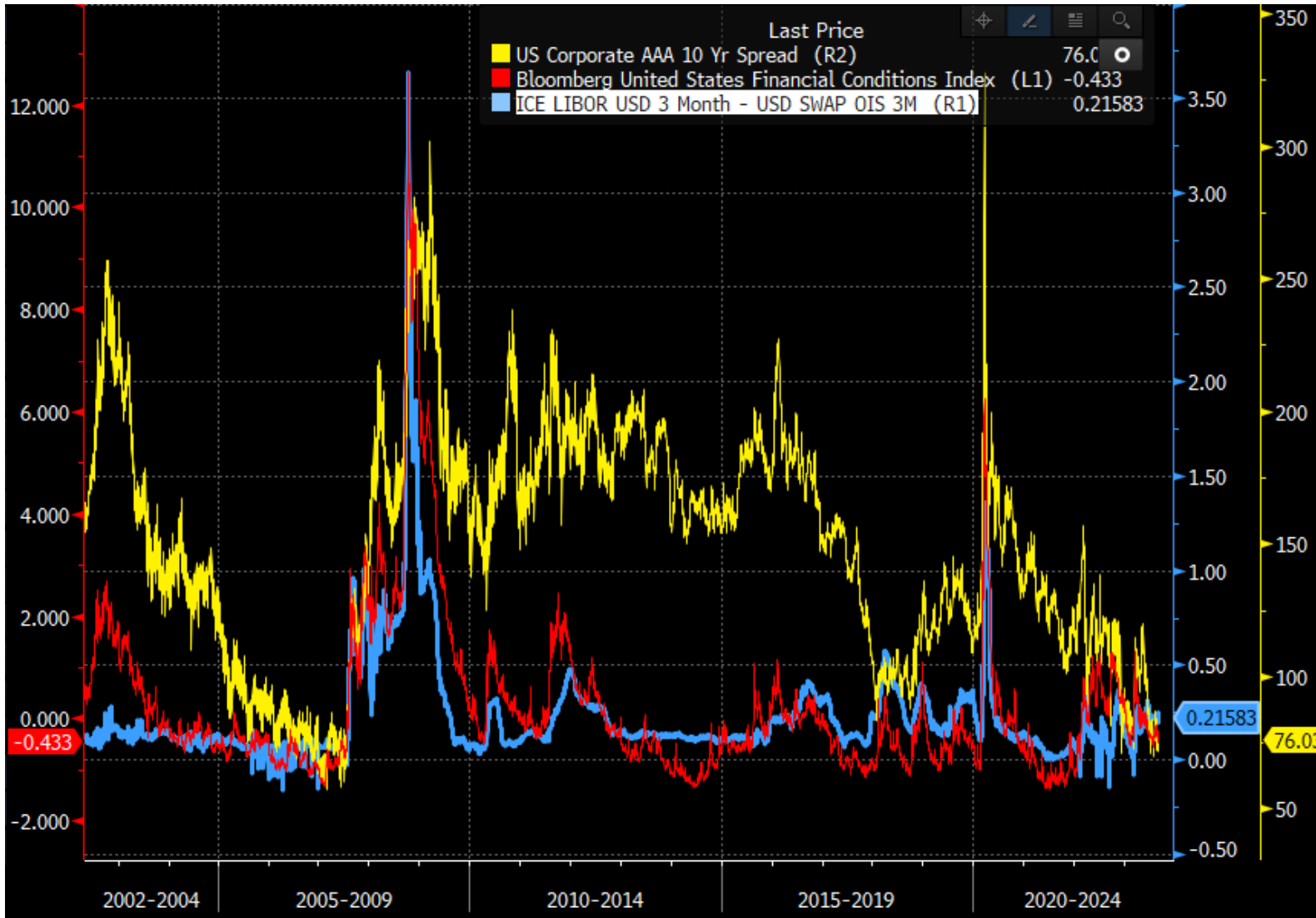
# Alternatives for the future?

BSBY (Bloomberg Short-Term Bank Yield Index)



- BSBY is a very rough indicator.
- Bank reference rate calculated by Bloomberg using Deposits, CertificateDepos, and CommercialPapers.
- High volatility, in tracking LIBOR
- Range of about 15bps, compared to USD LIBOR.

# Other Proxy Indicators



- Which other spreads, or credit, or liquidity indicators can be looked at?
- A rough proxy is US Corporate AAA spread
- US Financial Conditions (red) very close
- Naturally, the greater the counterparty / default / rating fears are, the wider the spread grows to reflect.



Zürcher  
Kantonalbank