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GS-3 Economy.

What is LIBOR? why financial regulations are transitioning from LIBOR? Discuss the benefits and challenges involved in transition!

London Interbank offer rate (LIBOR) is a global benchmark Interest rate for ~~short~~ unsecured short term borrowings in Inter bank market

Transitioning from LIBOR

Reserve bank - recently issued for complete transition from LIBOR.

why?

1. financial security authority of UK - ended Libor settings in 2021

2. Scandals & Reforms for risk free Interest rate - urger Reserve bank to move from Libor.

Challenges - Transition

1. ~~Ad~~ Reserve bank has announced

a new Alternate Reference Rate (ARR) → to choose from basket of currencies.

[Challenges]

1. Adoption of new reference rate, & its suitability → Remains challenge.

2. Internal changes, investment in technology for upgradation to transition

3. Legal implication in contract → amendment, interpretation, & etc.

4. Risk of financial liquidity & financial products

[Benefits]

1. Harmonisation of products, reduces the cost of financing, by reducing Risk premium

2. Increased competition → may increase transparency and effective pricing.

[Way forward]

capacity building, clear and suitable adoption of reference rate, and addressing timely actions will ensure smooth transition.