

AN ANALYSIS OF THE
RELATIONSHIP BETWEEN CHOICE OF
INTEREST RATE REFERENCE &
INTEREST RATE RISKS OF
CORPORATE BORROWERS

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DOCTOR OF BUSINESS ADMINISTRATION

CITY UNIVERSITY OF HONG KONG

JUNE 2011

CITY UNIVERSITY OF HONG KONG

香港城市大學

An Analysis of the Relationship between Choice
of Interest Rate Reference and Interest Rate
Risks of Corporate Borrowers

企業融資選取的參考利率及
其利率風險的分析

Submitted to
College of Business
商學院

in Partial Fulfillment of the Requirements
for the Degree of Doctor of Business Administration
工商管理學博士學位

by

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June 2011
二零壹壹年六月

Abstract

Corporations that raise funds in the financial markets using a variety of financial instruments, such as bonds and loans, can reduce the volatility risk of interest rate if they choose appropriate *interest rate references*, such as LIBOR, HIBOR or SIBOR, for their floating-rate borrowings.

This study finds that LIBOR is an interest rate at lower volatility significantly amongst all USD reference rates, while HIBOR and SIBOR are not reliable because of several reasons, including the liquidity of money markets, the composition of contributor banks and the guidance and requirement rate contribution.

In conclusion, this thesis recommends *corporations can reduce the interest rate risks and enjoy lower funding cost by selecting LIBOR as reference rate to price their floating-rate loans or bonds instead of using HIBOR and SIBOR.*

Key Words: LIBOR, HIBOR, SIBOR, Fixing, Interest Rate Reference, Offshore Market.

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List of Abbreviations

ABC	Agricultural Bank of China
ABS	Association of Bankers in Singapore
ACI	Association Cambiste Internationale
ADF	Augmented Dickey-Fuller
ARM	Adjustable-Rate Mortgage
AUD	Australian Dollar
BankComm	Bank of Communication
BBA	British Bankers' Association
BEA	Bank of East Asia
BIS	Bank for International Settlements
BMT UFJ	Bank of Tokyo-Mitsubishi
BNP	Banque Nationale de Paris
BOA	Bank of America
BOC	Bank of China
BP	Basis Point
CAD	Canadian Dollar
CCB	China Construction Bank
CD	Certificates of Deposit
CDO	Collateralized Debt Obligation
CFETS	China Foreign Exchange Trade System

CHF	Swiss Franc
CHIBOR	China Interbank Offered Rate
CITI	Citibank
CNY	Chinese Yuan Renminai
CNY SOR	Renminbi Swap Offered rate
DEUTSCHE	Deutsche Bank
DBS	Development Bank of Singapore
DKK	Danish Krone
ECM	Error Correction Model
EONIA	European Overnight Index Average
EUR	European Euro
EURIBOR	Euro Interbank Offered Rate
FRA	Forward Rate Agreement
FRCD	Floating-Rate Certificate of Deposit
FOMC	Federal Open Market Committee
FRN	Floating Rate Note
GBP	British Pound
GFSR	Global Financial Stability Review
GMT	Greenwich Mean Time
HASE	Hang Seng Bank
HIBOR	Hong Kong Interbank Offered Rate
HK	Hong Kong

HKAB	Hong Kong Association of Banks
HKD	Hong Kong Dollar
HSBC	Hongkong and Shanghai Banking Corporation
ICBC	Industrial and Commercial Bank of China
IDR	Indonesian Rupiah
INR	Indian Rupee
IRS	Interest Rate Swap
JPM	JP Morgan Chase
JPY	Japanese Yen
LDN	London
LIBID	London Interbank Bid Rate
LIBOR	London Interbank Offered Rate
KRW	South Korean Won
MIBOR	Mumbai Interbank Offered Rate
MIZUHO	Mizuho Bank
MYR	Malaysian Ringgit
NAB	National Australia Bank
NZD	New Zealand Dollar
OTC	Over-The-Counter
PHP	Philippine Peso
PRC	People's Republic of China
PRN	Perpetual Note

RBC	Royal Bank of Canada
RBS	Royal Bank of Scotland
Repo	Repurchase Agreement
RMB	Renminbi, or Chinese Yuan
SEK	Swedish Krona
SFC	Securities and Futures Commission
SFEMC	Singapore Foreign Exchange Market Committee
S.G.	Société Générale
SGD	Singapore Dollar
ShaCom	Shanghai Commercial Bank
SIBOR	Singapore Interbank Offered Rate
SING	Singapore
SMBC	Sumitomo Mitsui Banking Corporation
SOR	Swap Offered Rate
S&P	Standard & Poor's
THB	Thai Baht
TIBOR	Tokyo Interbank Offered Rate (for Japanese Yuan)
TMA	Treasury Markets Association
UBS	Union Bank of Switzerland
USD	United States dollar, or U.S. Dollar
VRN	Variable Rate Note