STATE OF WISCONSIN
Department of Employee Trust Funds
Robert J. Conlin
SECRETARY

801 W Badger Road
PO Box 7931
Madison WI 53707-7931

1-877-533-5020 (toll free)
Fax (608) 267-4549
http://etf.wi.gov

CORRESPONDENCE MEMORANDUM

DATE: September 13, 2012

TO: Wisconsin Deferred Compensation Board Investment Committee
Wisconsin Deferred Compensation Board

FROM: Shelly Schueller, Deferred Compensation Director

SUBJECT: LIBOR Rate Setting Situation

This memo is informational only. No Wisconsin Deferred Compensation (WDC) Investment Committee action is required.

The London Interbank Offered Rate (LIBOR) is an influential benchmark interest rate used worldwide. It is set daily by a group of banks in London that submit the interest rates they would expect to pay on a loan from another bank for ten currencies and fifteen different time periods. In the summer of 2012, issues regarding setting the LIBOR rates arose when it was discovered that banks were falsely reporting their rates, which was apparently done to make their banks appear more creditworthy or to profit from trades.

Manipulating the LIBOR interest rates is illegal, and in late June 2012, Barclays Bank was heavily fined in both the United States (U.S.) and the United Kingdom (U.K.) for documented LIBOR manipulation. Other banks are under investigation and lawsuits have been filed by those who feel they have lost out, based on artificial LIBOR rate setting. Changes to the LIBOR or even a replacement may be forthcoming, as both the U.S. and the U.K. governments are also reviewing how LIBOR is calculated and regulated.

Department of Employee Trust Funds (ETF) staff is watching developments related to LIBOR rate setting closely because the WDC Board uses the LIBOR for the Federal Deposit Insurance Corporation (FDIC) bank option offered by BMO Harris Bank. WDC participants holding assets in the FDIC account receive a blended rate of interest based on the fixed/floating interest rate allocation selected by the WDC Board. BMO Harris Bank reports that they, and their parent company (BMO Financial Group), do not participate in the setting of LIBOR U.S. dollar rates and are also monitoring the issue. While at this point it is unclear if the artificial LIBOR rates have had any negative effect on participants, BMO Harris is reviewing alternatives to using the LIBOR for the FDIC option. We plan to update the full WDC Board on this issue at the November 2012 Board meeting.

ETF staff will attend the September 25, 2012, WDC Investment Committee meeting to answer any questions you may have regarding the information in this memo.

Reviewed and approved by Matt Stohr, Administrator
Division of Retirement Services

Matt Stohr

Signature   Date 9.14.12

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