



# FAQS ON BENCHMARKS AND INDICES

## **What are Benchmarks?**

Simply, a benchmark is a standard or point of reference against which things may be compared. Financial benchmarks are created when information representing an underlying market (for example LIBOR rates represent the interbank lending market) is put together and used as a reference point which facilitates people transacting in a market place.

## **Why are they necessary?**

Benchmarks are vital for the smooth running of the markets and market confidence. They allow parties to form contracts with each other on a transparent, arms-length basis using standard terms, but take into account the changing economic reality of their particular market or sector.

## **Why is it important to have assurance on benchmarks?**

The purpose of any assurance engagement is to build trust. When a Chartered Accountant signs an assurance report, they attach their reputation for expert knowledge and integrity. This makes the business information covered by the report more credible, and gives confidence to the people using that information. This includes regulators, benchmark administrators and the wide range of other stakeholders who use benchmarks in their day to day business.

## **Isn't LIBOR discredited anyway?**

LIBOR submissions made during the periods which have been under regulatory investigation were found to be unduly influenced, both by rogue individuals and the impact on bank management of the wider economy in which they were operating. The basis of the LIBOR calculation and the purpose the rate seeks to fulfil remains a useful and vital part of the worldwide economy.

## **How can you assure benchmarks when they are constantly changing?**

Benchmark rates and indices move on a daily, weekly or monthly basis, but the process by which they're calculated, including how the information used in the calculations is gathered, what sort of review processes the submission goes through should be consistent throughout. An assurance practitioner can look at these processes and the controls that surround them in order to give an opinion on the integrity of the process by which the benchmark is created.

## **Who is the assurance for?**

With any assurance engagement many people will benefit, both directly and tacitly through the impact on market confidence. Assurance on LIBOR submissions is primarily for the LIBOR administrator, as it helps them know that they are working with information that has been submitted to them in accordance with the rules and methodology that they have set to govern the benchmark and ensure it is fit for purpose.

## **Why is ICAEW involved?**

We are in the unique position of being able to bring together insights from the assurance practitioners, parties who contribute to the creation of a benchmark (banks, price reporters, and administrators) and regulators. This enables us to provide guidance that meets the expectations of the wide range of stakeholders, is practical for those providing assurance. Consequently, this is a pragmatic step to our wider mission of restoring trust and inspiring confidence in financial services.