

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

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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.