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# Sandor and CBOE team up to create interbank lending exchange

Philip Stafford in London

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One of the founders of the modern-day futures market has teamed up with Chicago's [CBOE Holdings](#) to create a new exchange to encourage interbank lending between small regional US banks.

Richard Sandor, credited with pioneering interest rate futures on the Chicago Board of Trade in the 1970s, is set to launch the American Financial Exchange (AFX) later this

year.

The new exchange is the culmination of three years' work and will be a partnership between his company Environmental Financial Products and the CBOE, best-known in financial markets for their Vix volatility indices.

Its creation underscores how market infrastructure providers are exploring alternative ways to compile key financial indices and benchmarks after a series of high-profile scandals for rigging global interbank and currency markets.

Banks and brokers have been fined billions of dollars and regulators see more transparent and transaction-based indices as a way to clean-up the system.

AFX will be aimed at the 1,740 US community and regional banks with between \$500m and \$125bn in assets, the two companies said in a statement on Thursday.

"It will take an OTC [over-the-counter] market and turn it into a transparent exchange world. We will serve farmers and small businesses throughout the US," said Mr Sandor at the launch. "I think it will be the most transparent market index that exists. It's needed because there are 1700 banks

who are not the most sophisticated and need to have a market suited to their needs. For us in Chicago, this is how we do it. You bring in a lot of buyers and sellers into a market . . . it's how we've done it in this city since 1848.”

AFX will encourage small and mid-sized banks to lend and borrow short-term funds. It will also create a transaction-based interest benchmark through weekly auctions of a new benchmark rate for US interbank lending, called Ameribor. The index would be akin to CBOE's Vix volatile index, whose rise and falls frequently act as a measure of investor expectations of market volatility.

“We view having an index interest rate that is truly set by market forces as a real plus in today's environment,” said Bill Sirakos, senior executive vice-president and capital markets division head at Frost Bank in San Antonio, Texas. “The potential for growth in the use of the AFX is quite high, both among commercial banks as well as, eventually, today's commercial paper issuers.”

Its first auction, based on an EFP proprietary calculation, is expected to take place before the end of the year.

Mr Sandor, who has also been credited with pioneering the cap-and-trade business in the US for greenhouse gas emissions, said of the venture: “I am far more excited about this product than any other in my 50 year career in this business.”

Mr Sandor will be its chairman and chief executive while CBOE will provide the trading technology and surveillance for the market. Northern Trust will serve as the settlement bank.

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