**History:**

The SBP wants a more transparent lending mechanism in order to address complaints of arbitrary lending rate fixation based on personnel relationship rather than the logic of commercial consideration. The aim is to duplicate the LIBOR methodology in the UK or the prime rate in vogue in the US, and evolve a benchmark for customer lending.

At present, long term deals with floating rate are either linked to the Treasury bill rate of the government or the discount rate of the SBP.

**KIBOR as a Benchmark Rate:**

The State Bank of Pakistan (SBP) and the Pakistan Banks Association (PBA)

have asked the banks to use Karachi Interbank Offered Rate (KIBOR) of one, three, six month

and longer tenors, as made available, as the benchmark rate for all corporate

Lending in Pak. rupee after 31st January, 2004

This was decided at a meeting held in Karachi today under the Chairmanship of

The Deputy Governor, State Bank of Pakistan, Mr. Tawfiq A. Husain and attended by the

Chief Executives of all banks and senior SBP Officials.

A press release jointly issued by the SBP and PBA after the meeting said

That this benchmarking has been done with a view to encourage transparency, promote

Consistency in market based pricing and improves management of the market risk

Undertaken by banks.

**How KIBOR Works:**

The customer of KIBOR is lack of understand KIBOR how works. KIBOR it appears to them is too fragmented and dependent on weekly auctions held by SBP, which so far determine the liquidity in the system. Even though KIBOR deals are quite transparent and clearly shown on the trading screen, they remain a function counter party limit fixed by a bank for other banks under corresponding arrangements.

**Instruction To Banks For Benchmark :**

The SBP and PBA have the following instruction to rhe bank for Benchmarking their lending rates to KIBOR

KIBOR has been define as the Average rate, Ask Side, for the relevant tenor, as published on Reuters page KIBOR or as published by the Finance Markets Association of Pakistan in case the Reuters page is unavailable.

The banks and the borrowers will be free to decide the relevant tenor of KIBOR and the spread over KIBOR at their discretion. KIBOR will be set for the lending facility on the date of drawdown or on the markup reset date. The offer letters from the banks to their clients should clearly indicate the KIBOR’s tenor and the agreed spread, frequency of revision etc.

**KIBOR Will not be Applicable of the following:**

The press release said that it has been also decided that the requirement to use KIBOR as the benchmark rate will not be applicable for the following.

1. Export Finance Scheme (EFS) of the State Bank of Pakistan
2. Consumer Financing and SME Lending, as defined in SBP Prudential Regulations
3. Overdrafts and Running Finance facilities existing before January 31, 2004
4. Term Finance Certificates/Commercial Papers approved by the Securities and Exchange Commission of Pakistan (SECP) and/or submitted to any Stock Exchange prior to January 31, 2004.
5. All Time Loans with agreements executed before January 31, 2004. However, if the pricing is renegotiated, the pricing of such loans will need to be benchmarked to KIBOR within the available tenors.