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.  
  
Another issue is the customers' lack of understanding by customer of KIBOR and how it 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.  
  
The SBP wants the big banks to fix some kind of a prime rate and actual transaction between a bank and a client to take place on daily basis. At present, clients have to go to individual banks to get the best possible deal.

**SBP, PBA ASK BANKS TO USE KIBOR AS THE**

**BENCHMARK RATE FOR CORPORATE LENDING**

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 improve management of the market risk

undertaken by banks.

According to the press release, the benchmarking will apply to all Pak Rupee

denominated Floating and Fixed Rate Time Loans, Term Finance Certificates (TFCs) and

Commercial Papers (CPs) with reset dates (where applicable) within the available

KIBOR tenors of upto six months presently, which is to be increased to twelve months

tenor by March 31, 2004 and thereafter to three years by December 31, 2004. The

benchmarking requirement will also apply to Overdrafts (ODs) and Running Finance

obtained/renewed after 31st January, 2004.

The SBP & PBA have issued the following instructions to banks for

benchmarking their corporate lending rates to KIBOR:

KIBOR has been defined as the Average rate, Ask Side, for the relevant tenor, as

published on Reuters page KIBOR or as published by the Financial 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: (a) Export

Finance Scheme (EFS) of the State Bank of Pakistan (b) Consumer Financing and SME

Lending, as defined in SBP Prudential Regulations (c) Overdrafts and Running Finance

facilities existing before January 31, 2004 (d) 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 and (e) 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.

The press release pointed out that the financing rates under EFS will continue to

be determined as per instructions issued by the Banking Policy Department of the State

Bank of Pakistan and Overdrafts and Running Finance facilities extended prior to 31st

January, 2004 must be benchmarked to KIBOR at the time of renewal of the facility or

when the same is due for reprising.

The State Bank of Pakistan, through a circular, has asked the banks to comply

with the above-mentioned requirements regarding benchmarking of their corporate

lending to KIBOR. It also asked the concerned quarters to report the instances where the

banks do not follow the requirements of using KIBOR as a benchmark. The State Bank

has cautioned the banks that it will take appropriate regulatory actions, if any violation is

committed in his regard, the press released added.