



FINANCIAL MARKETS ASSOCIATION OF PAKISTAN

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March 22, 2004

FMAP/GS/PBA/KIBOR-0003/2004

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Head of ALM & Senior Dealer MM
Union Bank Ltd.

Mr. Naved A. Khan
Vice Chairman
Pakistan Banks' Association
Karachi.

Subject: Corporate Lending Based on KIBOR

Naved,

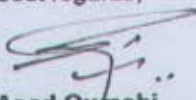
Please refer to our discussion on the captioned subject during the PBA/FMA Joint Committee meeting on March 05, 2004.

A Meeting of all KIBOR Contributing Banks was held in light of BPD Circular # 1 and the meeting of all banks' CEOs held at State Bank of Pakistan chaired by Deputy Governor Mr. Tawfiq A. Husain. Following guidelines were agreed upon by KIBOR Contributing Banks, with the view to further expand & deepen the KIBOR Benchmark as an effective standard for Corporate Lending purpose. These changes are to take effect from **March 31, 2004**.

1. To increase current tenors of KIBOR to include 9-months & 12-months tenors.
All KIBOR Contributor Banks will also start quoting 9 & 12-months tenors. The Bid/Offer spread for the above two tenors would not exceed 50BP (basis points) at any time.
2. To increase the minimum lot size from PKR 50million to PKR 100million.
All KIBOR Contributor Banks would be required to quote their two-way prices for minimum PKR 100million, within the allowable maximum Bid/Offer spreads for the relevant tenor. These prices would remain valid between 11:30AM-11:45AM. If the bank is hit on its KIBOR price once, it can then change the next price. This requirement has been imposed to ensure that banks do not quote out-of-market prices.

The proposal of developing the Interest Rate Swap Curve is still under consideration and will depend on future development of Derivatives Market. Market Participants are of the views that once the Derivatives Guidelines are in place and designated banks authorized to deal in Derivatives are formalized, it would be but natural to move towards quoting KIBOR Swap Premiums for tenors beyond 12-months. In the mean while FMAP is in the process of developing historical GoP Curve & Interbank Curve with the help of Bloomberg & Reuters. Therefore, till such time we are suggesting the above process to be implemented.

Let me know if you require any clarification on the above.
Best regards,


Asad Qureshi
Secretary - FMAP

Cc : **Salman A. Usmani** - President FMAP