F

Face Value: is the nominal value of a financial instrument, a bond, or a scrip declared by its issuer by stating it on its face; same as par value.

Factoring: in finance, factoring is the act of buying from a business entity its invoiced trade debt, and arranging its recovery as per terms agreed between that entity and its buyers; for example a factoring company may undertake to maintain the sales register of a client company, including credit checks on customers buying on credit, control over credit sales, dispatch of account statements to customers, and any follow-up procedure for credit recovery; a factoring company usually provides down payment up to 80 percent of the invoice value to its client, and the balance at the end of the credit extended by the client company to respective customers.

Failed Bank: a bank which is unable to meet its liabilities and its financial obligations, specially payments due to creditors and its depositors; a bank which has been legally declared bankrupt through a judicial process, because of its demonstrated inability to honor its contractual payment or re-payment obligations to its creditors and depositors.
(*see Bank Failure)*

Fair Price: a price representing the average cost of production and sale plus an average seller's margin; a price without a built-in premium for the seller; an exchange value based on routine market conditions.

Fair Value: also called fair market value; it is the amount the asset holder can reasonably expect to receive in an open sale of the asset in a market, other than a forced sale or liquidation sale; if there is no active market for the asset, and there is market for a similar asset, then the sale price of similar asset may be helpful in assessing the fair value of the asset concerned; the assessment of fair market value is needed to determine the collateral value of an asset if pledged as a security for a loan; more often it is needed for the revaluation of the networth of a business.

Falsify Financial Information: to compile or report false information, facts and figures knowingly and deliberately to misrepresent the true financial position of an organization and intended to mislead its audience or those who may need it for various purposes.

Falsify Entries (report): to alter, or to tamper with, or to miss-report entries or reports with the intention of misleading or defrauding the intended users or readers of such entries or reports; for example, investors, lenders, or bank examiners.

Farmer's Bank: a bank specifically devoted to provide credit facilities and other banking services to farmers or agriculturists to finance purchase of seeds, fertilizers, implements or machinery used in agriculture or storage of agricultural produce; such as Agricultural Development Bank of Pakistan.

Federal Deposit Insurance Corporation (FDIC): a corporation created by the US congress for insuring deposit institutions against their failure to repay customer deposits not exceeding US dollars 100,000, in case of a run on their deposits and their inability to raise requisite liquidity; however, before FDIC comes to the rescue of the insured institution, the inspectors of the Federal Reserve must establish that the bank is insolvent and is faced with a definite possibility of bankruptcy.

FDIC Insured Bank: a bank operating in the USA, insured by the Federal Deposit Insurance Corporation for deposit insurance cover fee, against default on repayment of customer deposits of US $100,000 or less.

Federal Funds: are noninterest-bearing deposits of member banks placed with Federal Reserve Bank of the USA in compliance with reserve requirements. If the reserve requirements are changed by the Federal Reserve, or if the banks need liquidity, such banks may need to borrow these funds from banks with surplus liquidity. The rate of interest on such borrowing or lending is treated as the base rate. In routine operations, these funds are used by member banks for effecting same day inter-bank payments.

Federal Reserve Bank, USA: is the central bank of the USA; it performs the usual functions of a central bank, namely, monetary management, control of money supply and banking credit, managing stability of prices and interest rates to foster monetary and financial stability; oversight functions concerning banking and financial institutions; its actions have a pervasive and swift impact on the US financial markets, indeed world-wide, given the pre-eminence of the US dollar, profoundly affecting the US economy, which has significant global implications.

Federal Reserve System (the Fed): Fed is central banking system of the USA, established under Federal Reserve Act of 1913 to hold cash reserves of member banks and to perform other functions such as printing currency, facilitating clearance and collection of cheques, issue and redemption of government debt paper. These functions were expanded in early 1930s to include control of money supply, banking credit, interest rate structure, and the monetary policy in general; the Fed consists of twelve Federal Reserve Banks located throughout the USA and act as the operating arms of the Federal Reserve System; all national banks are member banks; state banks may join at their option; in addition to this network of the Federal Reserve, there are 10 US banks who are members of the Fed's clearing house; the Fed policies and operations are formulated by its Board in the guidance of its Chairman who reports to the US Congress, and has enormous influence on the operations of the financial markets as well as on the banking and financial system in the US as well as overseas.

Fedwire: is the large-value electronic funds transfer system operated by the Federal Reserve of the US for inter-bank payments involving credit transfer of the reserve balances of banks placed with the Federal Reserve Banks and transfers of book-entry US government securities among banks. *(see Payment System)*

Fee: is a charge to provide a service, or to make an arrangement, or a commitment for provision of a service in the future; for example, collection fee, front-end fee, commitment fee, advisory and consultancy fee.

Fee Generating Activities: activities which result in generation of fee-based income; for example, a commitment fee to disburse a term loan in several tranches, a commitment fee is charged for keeping funds available at the time of draw down of each tranche of the loan; or a fee for bill collection service, where a collection fee is charged for arranging to collect proceeds of a bill from its drawer.

FIFO (First in, First out): is an accounting convention, a method of inventory pricing where stock received first is priced at the cost of inventory items received earliest, thus ensuring that the value of items in stock is fairly close to their cost; the oldest stock is shipped out first; this practice is common in manufacturing. The method opposite to this is called LIFO (Last In, First Out) where the latest inward consignment of an item is assumed to have 'gone out', that is, sold or used first.

Finance: in the sense of fund, finance may be classified in three broad categories from the perspective of sources, terms and conditions, and uses as follows:

- ***Sources*** of several types such as institutional finance, banking finance, formal or informal finance, own finance, loan finance equity finance, bond finance, foreign or domestic finance, multilateral or bilateral finance.
- ***Terms and Conditions*** of several types such as term finance, long term medium-term or short term; market finance, concessional finance, grant or aid finance, secured or unsecured finance.
- ***Uses*** of various types such as consumer finance, government finance, private or public finance, investment finance, working capital finance, mortgage finance, trade or inventory finance.

Finance Company: a quasi banking-financial institution that functions more like an investment bank but on a smaller scale, and in a well-defined market niche carved out in a line of business or industry; finance companies are organized, chartered, or registered under Companies Act or law as a limited liability company. They accept deposits and provide loan or equity finance usually at terms higher than those prevailing in the market. But finance companies are not regulated or supervised by the central bank, and are exempt from routine reporting requirements. If finance companies indulge in risky, speculative or imprudent financing they could endanger public confidence and cause system-wide financial crisis as happened in several countries, including Pakistan in the early 1990s. *(see Quasi-Banking Institutions)*

Financier: is the supplier of loan finance or equity finance to a business or a venture, usually understood to be a non-institutional source of finance or a private source of finance, but may also mean a source of institutional finance depending on the context.

Financial Accounting Standards Board (FASB): was established in 1972 in the USA; it is a body of certified public accountants, the US equivalent of chartered accountants. FASB is a part of the American Institute of Certified Public Accountants (AICPA), and under the supervision of the AICPA, it is responsible for defining accounting terms, re-classifying balance sheet and income statement items, developing clearly focused accounting procedures, and prescribing standard accounting practices based on Generally Accepted Accounting Principles (GAAP). In the US, all organizations are required to follow accounting practices prescribed by FASB as standard accounting procedure.

Financial Assets: assets held in the form of cash, bank deposits, financial claims, loans and fund placements; or securities such as shares, bonds, or other debt instruments.

Financial Assessment: is the evaluation of financial performance of an organization, a bank, or a business over a designated period of time in terms of financial costs and returns, financial strength and evaluation of profitability based on financial statements; this includes analysis and evaluation of turnover, cash flow, accruals, payments and receivables; if this scrutiny is done for the past period, it is post-period evaluation; this evaluation may be done for a future year such as assessment and analysis of feasibility of investment or planning for future trends based on expected cash flows or profitability; in case of a bank such assessment is focused on a bank's financial performance involving a quantitative and qualitative assessment of its liabilities and assets, matching of maturities, evaluation of risks and returns, liquidity and reserves.

Financial Contract: is a contract under which parties to the contract agree to provide and accept stipulated amounts for transactions or financial services; for banks, financial contracts may involve performance of borrowing or lending transactions; sale or purchase of currencies or financial instruments; or supply of financial services.

Financial Control: involves enforcement and compliance of the company policy concerning the management of its finances, as implemented by various organizational units while dealing with company funds; efforts to control expenses, asset acquisitions, investments, and borrowing activities to levels considered financially prudent by the management of the organization.

Financial Costs: rupee costs of a business operation or a business venture; or rupee costs of a project, or an investment in a manufacturing unit, or expansion of installed capacity expressed on the basis of current prices of machinery, equipment, labor and management costs, and spanning over a number of reporting periods covering the time of completion of the project or the investment activity; in contrast to economic costs where financial costs are adjusted to reflect scarcity prices or international market prices; in this sense, financial costs are also the nominal costs of all resources and inputs used.

Financial Crisis: is the emergence of serious financial difficulties for a bank or a business which may be beyond its capacity to cope from its own sources, thus forcing it to seek financial assistance or relief from outside sources; simultaneously undertaking extra-ordinary measures such as severe cut-backs or temporary closing down of its operations; is usually triggered by abrupt worsening of market trends, a recall by creditors, a run by depositors on a bank due to loss of confidence, critical shortage of routinely available finance, a major liquidity squeeze; may degenerate into insolvency or bankruptcy if the institution is unable to obtain significant and timely financial support.

Financial Deregulation: an across-the-board easing up of restrictions, rules, regulations, and laws governing the operations of the financial institutions; this may require amendments to the existing body of laws, even their cancellation or withdrawal together with major changes in the rules and regulations, stipulating the conduct of financial transactions; for examples, removal of the statutory ceilings on the structure of interest rates both on deposits and loans; removal of restrictions on the range and type of services of bank and other financial institutions; reduction in the degree of control exercised by authorities on the funding and lending operations of the banks, and on financial intermediation activities; easing up on rules governing entry and licensing requirements; reduction in activity based regulations; the impact of deregulation, in general, is to increase the competitive pressure in the financial system, and enhance consumer and investor access to more efficient financial services. *(see Financial Liberalization)*

Financial Discipline: is based on policies, guidelines, or procedures stipulated to ensure disciplined decision-making in financial matters and the overall management of finances of a bank, a business company, or an organization.

Financial Disclosures: declaration of financial facts and figures pertaining to the past, usually the last accounting period; disclosing financial position of an organization keeping in view the fulfillment of the legal and regulatory requirements applicable to such disclosures.

Financial Distress: a dire situation where a bank or a business entity is facing severe financial difficulties and is unable to honor its commitments owing to rapidly dwindling cash inflow from its turnover and operations; or drying up of its routine liquidity sources, thus forcing it to seek funding at a considerable premium over market costs; it may already have suffered losses, or is facing further major losses; and may be unable to prevent this situation degenerating into acute financial distress, endangering its survival; the causes of distress may lie in its operations in the past, over-extended commitments in risky or speculative ventures, or adverse turn of events in the market unanticipated previously, or the insolvency or bankruptcy of its major clients in their operations, well beyond the control of the bank or business concerned; thus, financial distress is building up of losses over a time period, rather than a sudden deterioration caused by a crisis or temporary adverse turn in market trends; a situation created by persistently low profitability and dwindling income from business operations.

Financial Distress, Banking System: also called systemic distress; prevails if a large number of banks are suffering with financial distress and are in serious financial difficulties owing to persistent losses and erosion of their capital; or banks may be insolvent mainly due to massive loan losses and defaults of a large number of their borrowers, and they are unable to cover the erosion of their capital base from the shareholders' funds, requiring major rescue effort by the central bank and the government.

Financial Diversity: is the existence of a variety of financing or investing options, or availability of a wide spectrum of products and services in the financial market; also the freedom, choices or options exercised by an entity in choosing from available sources of financing or venues for investment.

Financial Engineering: is the process of designing, developing, maintaining and controlling innovative financial products and instruments; involves formulation of creative solutions to the problems of finance.

Financial Futures: are standardized futures contracts whose market price is established at trading in a regulated commodity exchange; financial futures represent a commitment to buy or sell a specified quantity of a specific financial instrument in the future. like all other futures contracts.

Financial Information: consists of facts and figures pertaining to the past or projected financial transactions, status, or financial profile of an organization; depending upon the purpose for which it is prepared; it could be about the financial status of the enterprise as a whole such as trial balances or annual financial statements; or about specific areas of financial planning and management such as periodic cash flows and financial budgets.

Financial Innovations: is to create new financial products or services, or re-designing or re-packaging existing products and services or their delivery system, thereby increasing their acceptability among target customers.

Financial Instability: means disruptions or fluctuations beyond the normal level as reflected in fluctuations in interest rates, prices, financial flows, money and credit supply, liquidity, turnover, sales and adversely affecting business profitability, and returns to savers and investors caused by adverse financial or economic factors, domestic or foreign.

Financial Institutions: a broad range of financial institutions engaged in a variety of financial intermediation activities involving; mobilization of financial resources such as deposits and savings; providing loan finance to borrowers; equity finance to investors; and participation in financial markets.
(*see Financial System*).

Financial Instruments: are financial papers and documents acknowledging financial commitments or obligations; contractual agreements specifying legally enforceable financial liability; papers facilitating financial transactions, transfers, payments and settlements. In banking these are**:**

- savings or ***deposit instruments***, which are assets of the depositors, but the liabilities of the deposit money banks and other deposit taking institutions.
- ***credit instruments*****,** or instruments of indebtedness, which are liabilities of the borrowers, but assets of lending institutions.
- ***transfer instruments.***
- ***payments and settlements instruments.***
- ***financial markets instruments*** for investment and equity finance, such as stock, shares, bonds, and bills of various types.

Financial Instruments (Islamic Finance): on the funding side, these are profit and loss sharing instruments, where the suppliers of funds, the savers and depositors, maintain and operate profit and loss sharing accounts (PLS) with the financial institutions; the financial balances thus held in PLS accounts are adjusted at a variable ex-post rate of profit or loss as declared by the financial institution concerned. On the usage side, the financial instruments are mostly trade financing or investment instruments, consisting of:

- **bay'el-mua'ajjel:** used in trade financing; it is a sales contract for the spot delivery of the traded items, but with deferred payment as a lump sum, or in installments for an agreed period; the sales proceeds provide the cover for the invested amount.
- **bay'es-sala'am:** used in trade financing and it is also a sales contract for deferred delivery, but with spot payment; similar to a forward contract; the contract amount provides for the cover on invested sum.
- **modaraba**: is a profit sharing agreement similar to investment funds, where fund managers handle a pool of funds contributed by the shareholders of modaraba, and invested in activities approved by *Shariah*, with profit and loss and risk sharing arrangements stipulated for each investment activity. The selection of investment activities is done carefully to ensure that profit accruing to modaraba is not tainted with interest, or interest-like income from the business activities of the clients. For example, investment by suppliers of funds or modaraba in those investment trust units, or investment funds holding bonds or other interest bearing instruments, is not permissible.

- **murabeha:** is a short term trade financing instrument, extensively used to finance trade with a mark-up or cost plus sale, where the investor undertakes to supply specific items being traded under a contract for resale to the client at a mutually agreed margin over a specified period.
- **moshareka:** is an instrument of equity finance with active participation, similar to the joint venture, where the investor and original owner contribute capital and fixed assets, machinery, equipment, and working capital, together with technical and managerial expertise; a true partnership in investment as well as in business operations for medium to long term period. In Pakistan, a number of mosharaka companies are engaged in this type of financing. *(see Islamic Finance)*

Financial Intermediaries: are financial institutions engaged in intermediation activities such as bringing together suppliers of funds, the savers, and users of funds, the borrowers; or investors and financiers; or buyers and sellers of financial assets; traditionally, banks are regarded as financial intermediaries, but by definition, all financial institutions which perform these activities belong to this category.

Financial Intermediation: is the central function of a financial institution concerning mobilization of financial resources from savers and their deployment in remunerative credit or investment, which carry risks that are commensurate with the anticipated returns to savers and investors; involves channeling household savings into investments, or facilitating transactions in financial markets among buyers and sellers of financial asserts, or arranging financial contracts and exchanges.

Financial Investment Institutions: are investment banks and other financial institutions such as finance companies, which specialize in identifying profitable and reasonably secure investment opportunities for their investors, and make financial arrangements for the investments undertaken.

Financial Leverage Ratios: are ratios indicating the relationship between borrowed funds and equity funds reported in the balance sheet of an enterprise; these ratios are: total debt to equity; long term debt to equity; short term debt to equity and interest coverage ratio. *(see relevant entries and Leverage).*

Financial Liberalization: is liberalization of controls on business activities of financial institutions to afford them more operational flexibility; to provide them greater legitimate freedom to innovate and expand the scope of their activities by introducing a wider variety of financial products and services; to encourage fair competition among institutions with the objective of enhancing the overall efficiency of financial intermediation, the central function of the institutions.

Financial Markets: consist of money and capital markets; the money market segment deals in short-term financial instruments, mostly debt instruments to cover short-term financial needs issued by banks, companies and government such as deposit certificates, bills of exchange, commercial papers, and treasury bills; the capital market segment deals in long term financial instruments, both for long-term debt financing or equity finance issued by companies, financial institutions, or the government. In general, these are markets for financial instruments or financial assets of various maturities, risk and return characteristics involving savers, investors and intermediaries conducting transaction to facilitate the flow of household and institutional savings in to short and long term debt or equity instruments at prices determined by supply and demand conditions and interest rates. *(see Money Markets, Capital Markets)*

Financial Market Risks: various types of risk facing investor both in money markets and capital markets, classified as:

- ***market risk*** that the price or value of assets may decrease at the time of sale resulting in capital loss.
- ***interest rate risk***, that an increase in interest rate will cause a decline in the market price of a bond or a debt security or stocks and shares.
- ***default risk*** that the issuer of a bond may default on repayment or redemption of the bond.
- ***inflation risk*** that increase in general price level will reduce the real value of financial asset.
- ***currency risk***, that changes in exchange rate of domestic currency will adversely affect the rate of return on financial assets held in foreign currency.

Financial Needs: requirements of funds either for acquisition of assets or retirement of obligations through fresh borrowings or equity; financial needs of a business requiring fund raising.

Financial Management: the central aspect of financial management is the acquisition and use of finance by a company or a business entity in line with the overall objective of profit maximization and increase in its networth over time; as well as efforts to materialize strategic objectives of business entity, concerning the size, composition and growth of its operations, business concentration or diversification, and targeted expansion while maintain financial strength and profitability. Given this perspective, financial management covers a range of fairly sophisticated activities such as:

- assessment of financial performance and control involving financial valuation, analysis of financial statements, income, expenses and profits, sources and uses of funds, and evaluation of risk and returns.
- asset liability management involving management of working capital, cash flows, liquidity, inventories, receivable, and retained earnings on the asset side; loans, borrowings ,dues and repayments on the liability side.
- financial planning and forecasting both for short term and long term.
- evaluation of short and medium term financing needs and their provision from sources such as internal cash generation, lines of credit, and borrowings.
- acquisition of fixed assets through long term investments, involving capital budgeting, evaluation of risks, investment strategies and decisions regarding future expansion, consolidation or divestitures.
- long term financing strategies and decisions concerning capital structure, assessment of financial leverage and risks, financing mechanisms and instruments of long term finance such as long term debt, bonds, or issues of common stocks, or preferred stocks.

Financial Operations: are activities involving management of financial resources; activities concerned with controlling expenses, asset acquisitions, investments, mobilization of financial resources for funding financial requirements, and credit extension, monitoring, and control.

Financial Panic: is usually triggered by a drastic turn of market events such as rapidly falling prices; fear of imminent loss, severe illiquidity or insolvency; forcing the potential losers to take desperate actions to safeguard their financial position since their survival may be at stake; for depositors, fear of bank closure may cause a panic run on the bank; for businesses, the fear of free-falling prices may lead to unloading of their inventories well below costs; for financial asset holders, the fear of massive capital loss may trigger panic selling in financial markets.

Financial Performance: mainly concerns profitability and financial strength of a business organization and is based on several factors such as turnover, sales, cost control, use of financial resources; it concerns choices exercised in raising finance from a variety of sources to meet a variety of financial needs; it relates to business strategy and operating efficiency of the organization concerned.

Financial Performance Indicators: provide a measure of financial performance of a financial institution, a company or a business over a reporting period based on rates of financial growth or consisting of a set of ratios such as:

- profitability ratios, such as ratio of return on total asset (ROA), income to total asset, return on capital, dividend, profit margin.
- business growth; rate of increase of turnover, sales.
- asset and liability management ratio of sales to total assets or fixed assets, sales to inventories; and the ratio of total debt to total assets.
- liquidity ratios; current asset to current liability, quick or acid-test ratio.
- market value, the price earning ratio.

Financial Planning: involves determining the size and timing of expenditures and outlays together with their sources of finance such as profits, retained earnings, and borrowings, through a systematic analysis of operational plans to be put in action in a time frame; forecasting investment and borrowing needs on a time scale by types and amounts, and identifying possible venues or sources to be tapped for meeting those investment or borrowing needs.

Financial Policies: policies which lay down guidelines to select appropriate sources for raising finance and specifying uses of finances raised from various sources; to select appropriate activities for investment based on risk-reward relationship associated with each activity; and to specify a framework for financial discipline to be observed by all those involved in financial decision-making.

Financial Position of a Bank: the financial status of a bank at a specific time; it includes the level of assets, liabilities and equity of the bank and its position in deposits and advances.

Financial Ratios: are set of ratios devised to establish rational and meaningful relationships between various items of assets, liabilities, equity, incomes and expenses, so as to assist in analyzing the financial stability, business efficiency, and resources utilization ability of an enterprise. These ratios highlight financial leverage, asset turnover, liquidity, solvency, and profitability. *(see Ratios)*

Financial Regime: consists of a large spectrum of laws, rules, regulations and procedures that governs institutional finance and markets at the system level as well as at the operational level; it specifies the terms and conditions of financial intermediation, governing the system of credits and operations of credit markets; the system of deposits and deposit market; and above all the structure of interest rates both on the deposits and credits. Collectively, at the system level, these elements of financial regime determine availability and allocation of financial resources among the end-users; at the other end financial regime affects mobilization and supply of financial resources; in between, it determines the

process of financial intermediation, and costs and returns associated with the use and supply of financial resources. Broadly, at the macro-financial level, orientation of financial regime could be ***open*** and ***liberal*** thereby encouraging wider participation and greater mobilization and availability of financial resources at market determined cost and pricing structure; or this orientation could be ***repressive*** due to a wide range of financial policy controls, thereby constraining the vibrancy of any financial system, or even jeopardizing its financial health and solvency; at the institutional level, financial regime critically affects the outcome of financial intermediation activities thereby affects the profitability or the viability of financial institutions; the most powerful instrument of the regime concerns the interest rate structure together with the orientation of monetary policies pursued by the central bank regarding banking credit, its supply and availability to various sectors and prioritized segments of the economy.

Financial Repression: is excessive government control on financial institutions which severely restrict their legitimate freedom to operate and conduct genuine business; for example, government intervention in market process to control interest rates or exchange rate, banking credit and lending, entry of new institutions into the financial market, introduction of new financial services, contribute to financial repression.*(see Repressed Financial System)*

Financial Saving: is the reduction in interest or mark-up costs made possible either due to borrowings at low rates, or intensive use of borrowed funds; cost savings in payment of financial charges through negotiated lower rates.

Financial Savings: at the aggregate level, it is the amount of deposits and other savings held by the financial institutions expressed in nominal value; for household, businesses, organizations, and institutions, the saving balances kept in their accounts with financial institutions for a specific period.

Financial Services: a range of services which facilitate financial intermediation, directly or indirectly; include a variety of banking services of investment and financial institutions such as investment financing, factoring, forfeiting and bill discounting; insurance and re-insurance; facilitation of trading in securities markets and currency; financial consultancy and financial advisory services.

Financial Spread Sheet: financial data formats specially designed for analytical purposes which facilitate re-combining or listing, in a purpose-oriented fashion, the break-up of components of material items reported in financial statements.

Financial Stability: a steady state of financial system and financial markets concerning market fundamentals and trends; relative certainty with regard to interest rates, prices, inflation and exchange rates; sustainability of demand and supply of financial resources; a more predictable outcome of business expectations with regard to turnover, sales and financial flows; all these elements enhance the manageability of risk factor in finance and business and assist in enhancing financial stability.

Financial Statements: are accounting statements prepared by businesses, enterprises, and financial institutions which report the results of their performance in financial terms; traditionally, these statements include a balance sheet, profit and loss statement, and a statement of sources and uses of funds, along with explanatory notes stating the salient features of the accounting policies followed, and the break-up of major items appearing on each of these three statements.

Financial Structure: of a bank showing the capital base, shares, assets and liabilities; of a firm reflecting how a firm's assets are financed including the capital structure, short term debt and reserves.

Financial System: of a country consists of a vast institutional and market mechanism of mobilization, allocation and transfer of financial resources between suppliers and users; suppliers of financial resources are savers, mainly households but also businesses and corporations, while users are mainly businesses, investors, and government, whose activities lead to economic growth depending on how successful investors are in their ventures and how efficient the financial system is in helping them to do so. There are two major operational structures within a financial system; one structure is devoted to the system of ***indirect finance*** involving mobilization, allocation and transfer of resources by financial intermediaries of a large variety, mainly banks and non-bank ***financial institutions*** who are engaged in financial intermediation between users of financial resources, the borrowers, be in public sector or private sector, and suppliers of financial resources, the savers, mainly households; these intermediation activities and operations are overseen by a regulatory authority, typically the central bank, responsible for maintaining confidence of the public in the currency and the banking system through ensuring stability and solvency of the banking system. The second structure is devoted to a system of ***direct finance*** through financial markets between suppliers of funds, the savers and who are investors mainly households, and also businesses and corporations who invest in private or public securities, private or public bonds and stocks of companies listed on stock exchanges through operations of a variety of ***financial markets***, mainly money markets, foreign exchange markets, bonds and stocks markets;

their operations are regulated by securities and exchange commission responsible for ensuring public confidence mainly by insuring transparency in listing and trading of securities transacted in these markets. Besides, financial system consists of ***financial infrastructure*** facilitating operations of financial institutions and a variety of markets both for direct and indirect transfers such as deposit markets, credit markets, funds markets, debt markets and securities markets, and their infrastructure such as rating and reporting systems; the ***payment and settlement system*** and securities depositories, facilitating transactions and transfers; also a ***safety net*** and institutions such as deposit insurance corporations, or risk mitigation mechanisms that reduce volatility in the operations of credit markets or financial markets. Operations of financial intermediaries, institutions and markets are governed by a legal framework and are facilitated by an efficient ***legal infrastructure*** including a body of laws rules and regulations pertaining to every aspect of financial intermediation, trading and transaction, together with an enforcement mechanism and a system of courts for adjudication and arbitration of financial disputes, debt recovery, bankruptcy, liquidation and foreclosure.

Financial System, *efficient*: a financial system which optimizes financial resource mobilization and its allocation among various categories of users at market determined costs and prices so as to optimize overall returns; a system characterized by market-determined interest rate structure, both on the deposit side and lending side; a process of financial intermediation guided by market determined returns, and a credit system largely free of interventions and distortions thus ensuring optimal use of credit; a system where the costs of financial intermediation are market based and minimized relative to the size and level of financial resources mobilized and allocated.

Financial System, *healthy*: a financial system is healthy if a large number of financial institutions holding the bulk of system level assets are sufficiently strong in financial terms; are maintaining adequate reserves, both statutory and prudential reserves; satisfy prudential and regulatory norms with respect to capital adequacy and loan provisioning; are free of speculative ventures with minimum exposure to high risk activities; and enjoy a strong client base, that is, their borrowers are financially strong and solvent to meet their credit obligations to financial institutions.

Financial System, *liberal*: a financial system relatively free of government interventions and controls, thereby allowing the market forces to determine the pricing and allocation of financial resources, and providing enlarge facilities to financial institutions in their business operation; a system where the interest rate structure and credit availability is market based; a system which provides greater legitimate freedom to innovate and expand the scope of financial services being offered, and therefore permits the introduction of a wider variety of financial products and services; a system, which encourages fair competition among institutions with the aim of enhancing the overall efficiency of the financial services.

Financial System, *open*: a financial system where new institutions are allowed in and are not effectively prevented entry by an outright ban, or through a restrictive system of licensing, ownership and chartering; or prohibitive capital requirements; In this sense, a financial system may be open only to indigenous ownership, but may be closed to foreign owned financial institutions through an outright ban, or another layer of restrictions applicable only to foreign owned institutions and special procedures for approval, licensing and ownership.

Financial System, *solvent*: a solvent financial system consists of financial institutions with adequate capital, unimpaired by loan losses, and able to cope with routine financial needs and setbacks such as a slow down or a decrease in turnover, cash inflows and income; solvency of a financial system or an institution refers to the capital adequacy relative to loan portfolio risk exposure. *(see Solvency)*

Financial Year: a period of twelve calendar months for which an enterprise, either voluntarily or as per law, releases its annual financial statements; for example, banks in Pakistan have their financial year commencing from 1st January and ending on 31st December; government agencies, on the other hand, have a financial year commencing from 1st July of a year and ending on 30th June of the next year.

Financing Costs: of a business operation, or a business venture, or an investment consisting of the cost of borrowed funds plus the interest cost of own funds, reserves or retained earnings deployed in the business activity.

Financing Gap: is the gap between financial requirements and finances available or arranged.

Finished Goods Inventory: goods manufactured and ready for sale, but held as inventory stocks by the manufacturer; value of finished goods inventory as incorporated in the finished goods inventory account.

Fiscal Balance: a balance between the government needs for finances and their availability from taxes and government revenues; balancing government expenditures with government revenue; achieving a balanced budget, eliminating the need for government borrowings.

Fiscal and Monetary Restraints: a deliberate policy to control and to keep government's fiscal and financial operations in control, and to keep monetary expansion within a desired range so as to control inflation; to keep expenditures at a desired level, thus restricting the need for government borrowings from the central bank or the banking system, and preventing increase in money supply, or affecting the interest rate structure through controls applied on government spending to restrict public sector demand for goods and services, and thus preventing budget deficits and holding down price increases, and inflation.

Fiscal Policy: consists of a wide range of government policies such as budget policy, tax policy, revenue policy, expenditure policy, and borrowing or financing policy of the government, mainly at the federal level, but also at the provincial level; has a direct, immediate, and substantial impact on the economic and financial activities and trends of a country, besides the far reaching social implications of fiscal actions; thus fiscal policy is the most powerful policy instruments available to the government.

Fiscal System: a system of levying taxes, collection of revenues, allocation of expenses and disbursements of funds for government at federal, provincial or local level; on the revenue side, it consists of the system and structure of taxes; the system of inland revenue; the structure of duties and tariffs on production and trade; the body of laws, rules and regulations concerning taxes and revenues, and the collection machinery and mechanisms; on the expenditure side it consists of rules, priorities and entitlements for allocation of expenses, the mechanism of expenditure control and disbursements.

Fixed Assets: consist of equipment, machinery, installed productive capacity or facilities, buildings and real estate; or assets that cannot be easily sold or converted to other uses; fixed assets are usually acquired at a lump sum cost for a specific level of operational capacity.

Fixed Assets/Turnover Ratio: is the ratio of the year-end closing figure of gross investment in fixed assets of an enterprise and its sales revenue during the year; this ratio is supposed to show efficiency of utilization of fixed assets as reflected in generation of sales revenue through their use; the higher the ratio, the higher is the efficiency of utilization of fixed assets.

Fixed Budget: a budget which makes specific provisions under various heads included in the budget, but does not permit any discretion to those who are responsible for implementing it to shift resources from one head to another, or exceed budget provisions under a particular head.

Fixed Capital: consists of plant, machinery and equipment in manufacturing; infrastructure facilities, transport and communications, energy installations; capital goods that can not be easily converted, transferred, or shifted to uses other than those originally acquired for; involving substantial amounts of outlays as lump sum costs in production, manufacturing and business activities.

Fixed Cost: is the cost of machinery, equipment, building and other fixed assets incurred in installation of a manufacturing unit or a factory for a defined productive capacity; lump sum costs for starting a business operation; expenses incurred on the acquisition of fixed asset such as equipment, building, and business facilities, needed for a desired level of business operations; costs are fixed in the sense that a lump sum must be spent regardless of the level of utilization of installed capacity and the output produced; also long-term costs, a one-time expense over a long period determined by the rate of depreciation of the fixed asset. *(see Cost)*

Fixed Charge Coverage Ratio: provides a measure of loan repayment obligations including interest and principal relative to earnings before interest and taxes, but inversely, because it is a ratio of EBIT to the sum of interest and principal repayments; the higher the ratio the stronger is the loan servicing capacity of the firm, and hence stronger is the solvency. *(see Debt Ratios, Debt Management Ratios)*

Fixed Exchange Rate: is a fixed parity between two currencies; a fixed rate established by the government at which one unit of a foreign currency is exchanged for a pre-determined number of units or fraction of a unit of the local currency, without due regard to any change in the market's demand and supply for the two currencies; for example, in Pakistan the exchange rate between Pak Rupee and the US dollar was maintained at a fixed level until 1982.

Fixed Income Securities: carry fixed rate of interest over their maturities in contrast with varying or floating rate securities where the interest rate on the securities is variable; fixed income securities are government securities such as treasury bills and bonds; corporate securities that pay a fixed rate of interest specified at the time of issue, or coupons, for a specific period of time; or preferred stocks that generally pay dividend at a specified rate.

Fixed Interest Rate: is a rate of interest on a loan or investment which remains unchanged for the entire period of the loan or investment by agreement between the borrower and the investor.

Fixed Rate Assets/Liabilities: financial assets or liabilities which by agreement between investors or lenders and borrowers, carry fixed rate of interest income or charges for their entire life of the asset or the liability.

Fixed-Rate Deposit: a deposit on which the deposit taker has contracted to pay profit or interest at a fixed rate for the entire contracted life of the deposit.

Float (n): is the total monetary value of cheques, bills, payment and transfer orders, in transit between remitting and collecting bank; likewise, float emerges in the entire banking system with significant implications of system liquidity. Float arises mainly from a lack of synchronization in the payment system; may be lodged on the books of the central bank, or the commercial banks; if accumulated in large amounts, it causes liquidity shortage and affects the deposit base; the income earned on float is called float income and it is free of cost to banks; hence these liquidity amounts are often deliberately kept in float state. Float is of two types;

- ***Debit Float:*** occurs when in a credit transfer the payer's account is debited by the remitting bank, but payee's account is not credited; the remitting bank thus recovers the funds from remitting customers which are free of cost until the transfer instrument is presented for payment and settlement by the receiving bank; in debit float, the deposit base is reduced by the amount of credit transfer until the credit is posted.
- ***Credit Float:*** occurs when in a debit transfer, the payee's account at his bank is credited before the payer's account at payer's bank has been debited, or the account of payer's bank has been debited.

The amount of float, debit, credit or both, if large it affects deposits, reserves and monetary base; when the monetary value is subtracted from one account before it is added to another account it reduces the deposit base if the float is on the books of commercial banks, and reduces monetary base and reserves if the float is on the books of central bank conducting the payment system.

Floating Exchange Rate: a system whereby the exchange rate is allowed to adjust according to the market forces of supply and demand, and there is no intervention by the central bank or the government to maintain the exchange rate at a target level, as is the case with fixed exchange rate system. There are various types of floating exchange rate: *(see Fixed Exchange Rate)*

- A ***free floating*** exchange rate system is without any intervention by the authorities in the foreign exchange market; currently, major international currencies such as US dollar, Japanese yen, German mark and a few others are in a free float and their exchange rates are determined by international markets in foreign exchange.
- A ***managed float*** system, also called dirty float, is a system of exchange rate determination when market forces are only partially operative and are mixed with interventions to maintain a desired level of exchange rate.

- A ***band float*** is a system of formally specified or designated range of an exchange rate; within the range, exchange rate movements are allowed to occur almost freely; but if the exchange rate moves out of the band, the authorities may intervene.
- A ***snake float*** is a system where exchange rates of several currencies in the basket move together with in a band in a harmonious fashion, maintaining their relative position, more or less, with each other.

Floating Interest Rate: is a variable rate of interest based on a combination of a fixed premium over a fluctuating benchmark market interest rate. The premium element remains constant, but the combined interest rate fluctuates due to frequent changes in the benchmark market rate; for example, for a 3-year loan, a rate quotation which says "three percent over six-month KIBOR" indicates that the fixed premium is three percent, and six-month KIBOR is the benchmark market rate. KIBOR is subject to change because it is determined by market forces of demand and supply on the day the interest rate is fixed for the following six month period.

Floating Rate Loan: is a loan with variable rate of interest, instead of a fixed interest rate, tied to a reference market rate such as the prime rate, or a combination of several rates as stipulated in the loan agreement; typically a floating rate loan is a medium to long term loan in markets with large interest rate risk that cannot be covered by lenders in funding the loan.

Floating Rate Notes: are promissory notes issued by a borrower which offer a rate of interest tied to a variable benchmark interest rate, requiring a re-fixing of the rate of interest payable on them whenever the benchmark interest rate changes; also medium-term securities carrying floating rate of interest that are reset at specified intervals based on changes in the reference rate.

Floor Rate: is the opposite of cap rate, the minimum or the lowest interest rate to be paid by the borrower as specified in a floating interest rate loan, thus protecting the lender, should interest rate drop steeply during the maturity period of the loan.

Flow of Funds: are financial accounts in nominal values for a given period, essentially a matrix, showing sources of funds and their uses within as well as between major sectors of the economy such as households, corporate sector, government, financial sector and foreign sector, compiled from balance sheets and income statements which are aggregated at the sub-sectoral or sectoral level, and then eventually at the level of the economy, culminating into estimation of financial saving an investment at each stage of aggregation. It is a double entry

account system at the aggregate level, where supply of funds originates from various receipts such as wages, salaries, interest income, sales revenues of businesses, tax revenues of government; borrowings from financial institutions; sales of real assets and financial assets; while uses of funds are expenditure on goods and services and fixed investment by all sectors, reduction in liabilities as repayments of loans or increase in assets such as purchase of securities or other financial assets. For the economy as a whole, flow of funds accounts show that saving is always equal to investment, though for the individual sectors this is not true because some sectors have surplus savings while others are in deficit. The transactions recorded in the flow of funds account, show how the surplus is used by the sectors; or the same, how the deficit is financed by those borrowing these surpluses; therefore, total borrowings and total lending in aggregate for every sector are the same because for every borrowing or debt, there is a counterpart entry of a credit of the same amount. These transactions involve financial intermediation or financial markets. If the government or business sector borrows, these borrowings are done through financial institutions that collect deposits from the households, the originators of surplus funds, and lend it to the borrowers, the users financing their deficits. If the borrowers issue securities in the financial markets as government or corporate borrowers do, the households invest in these securities from their savings; or financial institutions invest in these securities from funds collected as households' deposits. Thus flow of funds account captures the entire spectrum of operational activities of financial system and presents them for the economy as a whole in an inter-locked detail showing who supplies the resources and who uses the resources together with the transfer mechanism through financial institutions or financial markets.

Foreclosure: is the forced termination of ownership right on an asset or a property pledged by the borrower to secure a loan, and is carried out by the lender with court authority to recover the defaulted debt; foreclosure is the last recourse for a lender because of losses of foreclosure all around; that is, in a foreclosure, the borrower irrevocably looses the right of redemption and is stuck with a bad credit rating; the lender may or may not recover the full value of defaulted debt depending on the market for the asset or the property under foreclosure to which the debt or the lien is attached.

Foreign Borrowing: is a loan or a credit obtained by a domestic borrower denominated in foreign currency, with repayment liability also denominated in foreign currency; a debt obligation in foreign currency incurred by private sector or public sector borrowers of a country, to be repaid in foreign currency with or without a sovereign guarantee of repayment. In countries facing steady depreciation of exchange rate, the foreign exchange risk in foreign borrowing is considerable if it is not covered properly and has to be borne by the borrower; hence, the bulk of foreign borrowing in countries is done by the government, or with the guarantee of the government. *(see External Debt)*

Foreign Borrowing, by Maturity:

- ***Short Term:*** are foreign loans of a maturity not exceeding a year, consisting of trade financing facilities, overseas bankers' acceptances, suppliers credits, short term loans extended by multinational banks, all carrying foreign currency repayment obligations.
- ***Medium to Long Term:*** are foreign loans of maturities of more than a year, bulk of it up to five to seven years, and some exceeding beyond, as in the case of development loans obtained from multilateral credit institutions; long term loans are typically for investment purposes and capital expenditures of development projects.

Foreign Capital*:* medium to long term equity or loan funds originating from foreign sources and denominated in foreign currency.

Foreign Capital Inflow: inflow of medium to long term equity or debt funds from investors and lenders resident abroad, denominated in foreign currencies, with liabilities of repayment or repatriation also denominated in foreign currencies; recorded in the balance of payments, both on private accounts and government accounts; consisting of private foreign investment, private foreign loans and foreign currency term deposits, medium to long term debt obtained both by the private sector and the public sector in foreign currencies, with or without sovereign guarantees. *(see Foreign Private Investment, External Debt, Balance of Payments)*

Foreign Currency Assets or Liabilities: are financial assets such as deposits, financial claims, shares, bonds, commercial papers, denominated in a foreign currency; also, financial liabilities, such as foreign loans, overseas trade credits, bankers' acceptances denominated in foreign currency with repayment in the same currency.

Foreign Currency Translation: is the conversion of the year-end financial figures of the subsidiaries into the currency of consolidation used for preparing the parent company's financial statement to consolidate the financial statements of an international company, which has subsidiaries operating in foreign countries, For example, conversion of Pak Rupee-based financial statement of ICI Pakistan Ltd into British pound sterling-based statements to permit their consolidation with ICI financial statements in UK.

Foreign Exchange: is internationally convertible currency; these are usually major international currencies such as US dollar, Japanese yen, German mark, British pound sterling, and other European currencies that are internationally acceptable for payments and settlements.

Foreign Exchange Contract: a contract stipulating purchase, payment or transfer of foreign exchange between buyers and sellers over the next few days requiring exchange of one currency for another, at a specific exchange rate, usually the current exchange rate prevailing in the market; the contract protects both the buyers and sellers against the risk of exchange rate fluctuations, though for a very short period of a few days, to complete a foreign exchange transaction.

Foreign Exchange, Cross Rates: currencies quoted against each other, not against the US dollar, such as Pak rupee against any foreign currency.

Foreign Exchange Deposits: are overseas deposits denominated in foreign currencies and held by the domestic banking system, with liability denominated in the currency of the deposit at interest rates prevailing in the country of origin, plus a premium.

Foreign Exchange Market: is the worldwide market for trading currencies with a turnover of more than a trillion US dollars per day; major trading centers are Tokyo, Singapore, Hong Kong, Bahrain, Zurich, Frankfurt, Paris, London, New York, Chicago and San Francisco; major quoted currency is the US dollar and major traded currencies are US dollar, Japanese yen, German mark together with other strong European currencies like pound sterling, and Swiss franc, constituting the first tier of the market, the most liquid international currencies; major participants in the market are multinational commercial and investment banks, central banks, government treasuries and government financial institutions, funds of various types, international financial institutions, corporations, brokerages, investors, and speculators.

Foreign Exchange Position: is a statement which shows net asset or liability position in accounts denominated in various foreign currencies after setting off outstanding assets against liabilities in respective currencies; in the foreign exchange market, the position of the trader may be:

- ***long,*** which means the trader has bought more of a currency than sold; the risk on this position is that the currency depreciates and loses value for the trader.
- ***short,*** which means a trader has sold more of a currency than purchased; the risk is that sold currency appreciates, causing trader a loss.
- ***square,*** that is, neither long, nor short; the trader has no exposure; risk to this position is the opportunity cost, that is trader does not gain from changes in value of the currency.

Foreign Exchange Quotation: is the price quoted for sale and purchase of a foreign currency in exchange for the local currency or another currency; the quotation usually has a bid and an offer price indicating the two exchange rates at which the market is prepared to buy and sell one currency for another; the quote uses a 3 character SWIFT Code for each currency; could be a direct American quote expressing amount of US dollar per one foreign currency unit; or it could be an indirect European quote expressing the number of units of foreign currency per US dollar; indirect quotes are generally the rule in the foreign exchange markets. (*see SWIFT)*

Foreign Exchange Reserves: are the balances held by a central bank in major international currencies like US dollars, Japanese yen, British pound sterling, with other central banks abroad, to ensure payment and settlement due in foreign currencies on account of payment obligations arising from imports, repatriation to foreign investors, or repayments on external debt whether government or private foreign loans; in Pakistan, these reserves are a critical indicator of foreign exchange position expressed in terms of coverage for x-months of imports.

Foreign Exchange Revenue: is income or revenue earned in foreign currency.

Foreign Exchange Risk: of various types in:

- foreign exchange trading; *(see Foreign Exchange Trading Risk)*
- foreign borrowings, loan, debt; *(see External Debt)*
- trade financing; *(see L/C, Trade Financing)*
- asset holding; the risk of a depreciation of exchange rate, thus a loss on the value of assets held in depreciating currency relative to a benchmark foreign currency.

Foreign Exchange Trading: there are three types of trading; spot, forward and swap:

- ***Spot Transaction;*** is an agreement to exchange an agreed amount of a currency at an agreed exchange rate, the spot rate, to be delivered in two days time, the value date of spot trade.
- ***Forward Transaction;*** is an agreement to exchange an agreed amount of currency at an agreed exchange rate to be transacted at some future date as specified, a forward date. The forward rate is the spot rate plus cost of money based on interest rate differential; is usually quoted in points either added to or subtracted from the spot rate.
- ***Swap Transaction;*** is a combination of a spot and forward position executed simultaneously; that is, a spot purchase of a currency is made with a simultaneous forward sale of the currency; thus no, net long or short position is created.

Foreign Exchange Trading Income: is income generated from buying and selling of foreign currency denominated funds or cash in exchange for other currencies; or income generated by buying foreign currency funds from exporters or beneficiaries of foreign remittances at a cheaper rate, and selling to importers or remitters, as per foreign currency rules and regulations.

Foreign Exchange, Trading Limit: is a cap or a limit specified for a trader for a given day of transactions in the foreign exchange market.

Foreign Exchange Trading Risks: there are several types of risks as listed below:

- ***Market Risk;*** the risk that the market exchange rate moves against the position held by the trader.
- ***Counterparty Risk;*** the risk that the party with whom the trader has entered into an agreement cannot honor the agreement.
- ***Transfer Risk;*** more a function of country risk, that rules and regulations may change preventing the international transfer of funds; new exchange restrictions or embargo in a crisis situation.
- ***Settlement Risk;*** arising from trading with counterparties where settlement may not occur immediately and the exchange rate may move within the value date of settlement, causing a loss or gain; a counterparty may default on the agreement within the value date; to counter the risk, the effective value date (time) may be advanced, or a limit may be stipulated per trading day.
- ***Interest Rate Risk;*** for some currency transactions, like a swap, the real exposure may not be to currency rate movements, but to interest rate changes for the currencies or countries involved, since it is the key difference between spot and forward positions.

Foreign Loans: are loans and credits denominated and repayable in foreign currency, extended by foreign creditors in various maturities to domestic borrowers, creating future loan servicing liabilities in foreign currency. *(see External Debt, Foreign Borrowings)*

Foreign Private Capital: is the stock of foreign capital held by private sector in a country, with liabilities of repatriation of capital, dividends and profits denominated in foreign currency; a major foreign currency obligation of a country on its balance of payments; consists of direct foreign private investment in a country undertaken by multinational companies and other foreign investors in major manufacturing or services industries through their subsidiaries or in joint ventures with local companies; and foreign portfolio investment in stocks and shares of local companies held by foreign investors; with the globalization of financial markets, combined with the relaxation of rules and regulations concerning foreign private investment and with the opening up of domestic financial systems there has been a tremendous growth in foreign private capital flows since the late 1980's.

Foreign Private Investment: is undertaken by foreign private investors such as financial institutions, major investment funds, investment banks, multinational companies, corporations and businesses, without sovereign guarantee tendered by the government or the central bank, but with reasonable assurance for transfer of profits and repatriation of principal amount invested in an internationally convertible currency; this transfer commitment is critical in maintaining investors' confidence and amounts to an implicit guarantee for stable exchange rate since the investor undertakes the foreign exchange risk and transfer risk, in addition to usual business risks in an investment; these foreign private investments are recorded as gross capital inflow in the balance of payment accounts, and are financing item net of repatriation of profits and capital; there are two types of foreign investment:

- ***Direct Foreign Private Investment:*** is capital contribution in a local business, opening of subsidiaries by multinational companies, installation of local manufacturing facilities by foreign firms, franchises and distribution outlets of foreign firms.
- ***Foreign Private Portfolio Investment:*** is the equity investment, or shareholdings in a local company; by far the largest part of foreign private investment undertaken through securities markets, domestic and international, involving purchase of stocks, shares, corporate bonds and securities, and other financial market instruments; there has been a phenomenal growth in foreign private portfolio investment since the late 1980s, and governments of many countries have borrowed heavily through bonds and securities specifically issued and targeted for private portfolio investment.

Foreign Sector: is a sector of the economy with significant foreign financial, business and economic activities, trade and payment relations.

Foreign Trade Balance: is the balance of merchandise exports and imports recorded in the balance of payments accounts, expressed in domestic or foreign currency for a specific period.

Foreign Trade Regime: consists of a wide spectrum of rules, regulations, procedures as well as conventions, limits, quantitative restrictions, and barriers applicable to international trade; these have to be complied with by exporters and importers; thus, the trade regime of any country is a vast body of rules of international trade directly affecting profitability of trading activities; in this sense, trade regime determines the size and composition of foreign trade, and thereby determines the balance of trade of the country concerned and its balance of payments; since international trade is based on the cost structure of domestic

production and comparative advantage, the trade regime by its design, affects the cost structure of tradable and the structure of domestic production, manufacturing, employment and technological growth; for these reasons, foreign trade regime is of strategic significance for the overall growth and diversification of an economy; this in turn depends on the orientation and thrust of foreign trade regime at enhancement of international competitiveness of the tradable of the country concerned; but typically foreign trade regime in the past has been aimed at constraining imports within manageable levels of foreign exchange availability; for developing countries like Pakistan there is now a consensus that the orientation of foreign trade regime should be export promotion; the single most powerful instrument of foreign trade regime is the system of exchange rate which also has a pervasive impact on capital flows and domestic price level; tariffs are the second most important instrument primarily intended for restricting import trade; next is a system of incentives for exports consisting of preferential tax treatment, excise duties, input pricing, and export duties; besides these, other important instruments of trade regime are quantitative restrictions, bilateral or multilateral trade agreements, trade quotas, trade barriers, all of these determine the composition and direction of foreign trade.

Formal Finance: is finance arranged by formal financial institutions; in contrast to informal finance, formal finance is arranged through financial facilities made available under standardized arrangements that create contractual obligations between the parties extending and receiving finances, namely the lender and the borrower, and therefore are legally enforceable, with well defined and widely acknowledged recourse and remedies; these financial facilities are loans and credits provided by formal financial institutions such as banks, specialized financial institutions, finance companies or non-bank financial institutions; whereas informal finance is provided by money lenders, friends or relatives which also entails financial liabilities but carries a mixture of financial and social obligation and are not so easily enforceable through legal measures in the event of non-performance or default by the borrower.

Formal Financial Institutions: these institutions are organized, chartered and established under specific acts and laws of their own and their business is governed and regulated by rules and regulations specific to their financial activities; for example commercial banks, which are established under banking act and their business activities are governed by laws and regulations specific to commercial banking activities and they are supervised and monitored by central bank under well established rules and regulations of banking supervision; or specialized financial institutions which are usually created under special act of their own, separate from banking act, even though their financing business is generally similar to those of chartered banks; or finance companies which are chartered, established and registered under companies act, with rules and

regulations of their own concerning their operations more along the lines of business organizations and companies rather than banks; or financial cooperatives which are established under cooperatives act with their own specific rules and regulations that govern cooperative activities, but tailored to financing activities; or non-bank financial institutions like insurance companies or mutual investment trusts which are created under insurance companies act or trust act, but they engage in a variety of financing activities.

Forward Contract: are contracts or agreements executed between parties which provide for performance of the contract at a fixed or determinable future date; for example, forward foreign exchange contracts where the exchange rate is agreed now but currencies are exchanged at a fixed future date or during a future period.

Forward Price: are prices prevailing in commodity markets, currency markets or securities markets for future sales contracts; the quoted forward price of a commodity, a currency or a security for future trading.

Forward Rate Agreement: are agreements executed between parties to a contract to protect against future movements of the interest rate for the period of the contract; it provides an off-balance sheet method of managing interest rate risk; if the agreement stipulates a specific interest rate to be paid on a deposit of stated maturity with a settlement date in future, then the agreement is similar to interest rate futures and interest rate swap; the interest rate can be based on a reference rate or an index, for any amount covering a specified period, where the principal amount is agreed, but is not exchanged.

Frailty of Financial Institution: is the weakness of a financial institution; a weakened capacity of financial institution to withstand minor loses or financial pressures caused by a temporary lack of liquidity, a business slow down, or a reduction in turnover and income caused by adverse financial or monetary or fiscal trends, upsetting supply or demand for funds or increasing the cost of funds.

Franchiser: is a company which has a well-known and reputed trade name, trade mark or brand, and permits another company to setup the same business at another location in its name for trading in its products or services of identical quality and specifications at standardised trading outlets in exchange for a financial consideration, a franchise fee.

Fraud: is a major risk in business, finance and banking, requiring sophisticated anti-fraud protection procedures, safeguards, cross-checks, layered approval processes, and installation of expensive monitoring devices; is a major cost item for financial institutions; there are several types of fraud depending on line of activity and target institution concerned.

Fraud Risk: the risk of possible fraud inherent in a transaction or deal because of the procedure in which it has to be completed, or the type of transaction.

Fraudulent Activities: acts of deception, misrepresentation, illegal actions and activities in financial matters, all aimed at securing financial gain at the cost of the targeted business, individual or financial institution.

Fraudulent Bank Management: management of a bank misrepresenting the true financial conditions of the bank; organized efforts at covering up losses, misappropriation of funds, book- keeping and accounting errors or irregularities, violations of internal or external regulatory restrictions, and illegalities committed by bank employees; deceiving regulators, customers and general public by conveying an impression that the bank is being prudently managed though it is not.

Free of payment: a term used in collection of documentary bills, where the seller, the drawer of the bill, instructs the collecting or presenting bank to deliver the documents to the drawee or the buyer, free of payment, that is, without recovering any money. In a general sense, it may mean providing of goods or services without any payment; for example, replacement of a part in equipment under a product guarantee.

Freely Convertible Currency: a currency which can easily be converted or exchanged with another currency without any difficulty or restrictions; a currency with no restriction on its movement and transfer.

Full Disclosure: is to provide complete information not usually included in the pro-forma formats of financial statements, business status reports, balance sheets and other routine financial documents; to provide a true assessment of business or financial institution concerned.

Funding: is to allocate or to provide funds for a special purpose; raising funds for a financial commitment or transaction; in banks, a transaction may be funded, for example a demand draft is issued after the funds have been provided, as against a reimbursement where the claim is made after payment.

Funding Costs: are the costs of obtaining finance for business operations or activities.

- ***For banks*** and financial institutions, the funding cost of loanable funds consists mainly of interest paid to the depositors for the deposit funds accumulated; interest and mark-up paid on funds borrowed for on-lending.

- ***For businesses,*** funding costs are mainly interest paid on borrowed funds to finance business activities, or imputed costs of own-funds; agency fees, commissions, or front-end fees paid to raise finance for business.
- ***For investors,*** interest paid on borrowed funds raised for investment; costs, commission and fees incurred to raise equity finance in securities markets; syndication charges and costs of floating securities to raise equity finance.

Funding Department: is the section or the department in an organization which handles and manages funding operations.

Funding Risks: are risks associated with funding activities of a bank involving deposits and borrowings, primarily the interest rate risk; or exposure risk associated with borrowings specially exchange rate risk of foreign currency loans obtained to finance lines of credit; or risks inherent in funding operations for liquidity needs; or risk of mismatch of maturity structure on deposits and borrowing relative to the maturity structure of loan portfolio.

Funds Transfer: a remittance or transfer of funds from one person to another or in case of a bank, from one account to another which may be in the same branch of the bank or with another branch or bank in the same city, country, or abroad.

Future Price: is the price of an item at a future date; expected price future based on anticipated market trends, and future supply and demand conditions; may be significantly different from current market price due to the volatility of markets.

Future Stream of Payments: are anticipated payments and outflow of funds in future on account of purchases, manufacturing costs, debt repayments, interest on borrowings, rents, salaries of staff and other expenses or disbursement; this vital information is needed to prepare a cash flow statement or cash budget; this also refers to receipts or payments of fixed or varied amounts over a period of future time under an annuity.

Future Value (FV): a central concept in finance concerning time value of money; it is the increase in the value at a future date, or over a defined period of time, of an amount of money, a deposit, a cash flow, an ordinary annuity, or an interest bearing financial asset; it provides a saver, an investor, or an asset holder a measure of growth in the value of saving investment over the time horizon. The future value FV of a fixed amount of money or a fixed deposit (D) in the initial period, compounded at a rate of interest (i), paid a specific number of time periods (t) over a designated time horizon (n) and is calculated as;

FV = D (1 + i) to the power n

FV of a constant stream of payments, such as an ordinary annuity, A, or income from an asset received in equal amounts per period (t) over a defined time horizon (n) and compounded by an interest rate (i), and calculated as the sum;

FV = sum (over t = 1……n) A(1 + i) to the power t

The future value FV of a stream of payments or cash inflows received per period in variable amounts (Ct), compounded by a rate of interest (I), over a designated time horizon (n), calculated as a sum;

FV = sum (over t = 1n) Ct(1 + i) to the power t

Note that the FV in the three cases above have different formula, for a fixed amount of deposit or investment; a stream of constant or equal payments per period; and a stream of variable or unequal payments per period; but in all the three cases, the FV is a measure of future growth and is critically sensitive to the interest rate.