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Kerb Market: is an informal market; it is undocumented and unregistered market, escaping tax net thereby generating large profits for traders, operating in parallel to formal market without any regulatory control or restraint with regard to modes of trading or pricing of items traded, usually with a significant differential between official rate versus kerb rate. Kerb market often refers to an informal market for currencies where trading is done by unauthorized and unregistered currency dealers, operating side by side licensed and regulated banks or registered finance companies who are authorized as foreign exchange dealers. Kerb market could be a market for essentials or consumables which spring up in times of price controls; or it could be a market for securities where off-hour trading is conducted outside stock exchange. In case of currencies, kerb market activity is mainly trading in *havala* market for cross-border exchange and transfer of foreign currencies, the so-called *black market*; hence it is an illegal market for currencies that has prevailed for long time in several countries including India and Pakistan. *Havala* market is still operating, though street corner venders, surreptitiously soliciting and trading foreign currencies in Pakistan are long gone in the wake of liberalization of currency markets. In contrast, authorized dealers of foreign exchange are commercial banks and foreign exchange companies who conduct currency trading under tight rules and regulations concerning foreign exchange transactions, domestically or overseas; they have to comply with strict reporting requirements of the central bank. In Pakistan, kerb market in foreign currencies is believed to be very large with a narrow exchange rate differential between kerb exchange rate and bank rate, shadowing its movements. *Havala* market in Pakistan and India have largely survived all efforts to control owing to its better rates of exchange and superior customer services with confidentiality and reliability though of the late there are signs of switch over to formal market.

Kerb Market Premium, *foreign exchange*: is the differential between official exchange rate and kerb market rate for leading currencies; usually it is the excess of kerb rate over official rate, arising from a host of factors including pricing, modes of trading and supply and demand factors rooted in financial and economic trends and their expectations as perceived by currency traders.

KIBOR: is an acronym of ***Karachi Interbank Offer Rate***, similar to LIBOR, *London Interbank Offer Rate*. KIBOR is the premium rate of interest prevailing in interbank funds market in Pakistan as in other countries. It is a rate charged by leading banks for placement of their surplus funds with those banks who may find themselves short of liquidity and may need liquidity replenishment. Beyond liquidity needs, banks may engage in financing of their large, corporate client needs by raising funds in money or debt markets for short to medium term, including borrowings from interbank funds market. Hence there could be several interpretations of KIBOR; foremost, it is a market based premium ***rate of interest*** on large funds, though varying with changes in demand and supply conditions, buttressed by leading economic and financial trends; thus, KIBOR is seen as a ***cost*** of obtaining liquidity for whatever maturity such funds may be needed, whether for short term or long term; and at the next layer, KIBOR could be seen as a ***price*** for obtaining financial resources. Since trading of these funds in interbank market is usually done on the basis of purchase / repurchase agreement of securities like treasury bills underlying these transaction; therefore, such trading amounts to short term interbank lending, and thus KIBOR is a short term lending offer rate for large amounts of funds, traded on wholesale basis in the money market that provides the ***anchor rate*** or a ***bench-mark rate*** for short term lending on retail basis, where onward lending to the clients is done on KIBOR plus basis, usually 2 to four points above KIBOR for large institutional borrowings by banks, and higher rates for short term corporate borrowers of bank clients. For long term funds, KIBOR plus formula is adopted to set coupon rates on new corporate bond floats; hence in this sense KIBOR could be seen as the base rate for long term debt instruments, representing market consensus prevailing at any given time. In Pakistan, since its inception in 2002, KIBOR has gained respectability and acceptance as reference rate in short term money and credit markets of Pakistan. Lately, this status has been elevated to reference rate or anchor rate for debt markets in tandem with policy rate of central bank, SBP, where coupon rates of bonds are mostly pegged to KIBOR+ at the time private bonds are floated.