GENERAL QUESTIONS

1. When Prudential Regulations were first introduced?

Due to major fundamental changes in the scope and orientation of financial systems in 1990, and the subsequent need to put in place a more prudent regulatory framework to cope with the changing conditions, Prudential Regulations were put in place first in 1992. Since then, the Prudential Regulations have been reviewed many times and the latest version relates to three different sets covering the areas of Corporate, SMEs and Consumers financing.

2. What is the purpose of Prudential Regulations?

Prudential Regulations have been issued by State Bank of Pakistan to put in place a prudent regulatory framework for ensuring safety and soundness of the financial system besides protecting the interests of users of financial services.

3. What is the scope of application of Prudential Regulations?

Prudential Regulations are applicable to banks and DFIs only. As such, the Non-Bank Finance Companies (NBFCs) are governed separately by the Securities and Exchange Commission of Pakistan under separate set of regulations issued by them.

4. How Prudential Regulations were formulated?

Prudential Regulations were formulated after extensive consultations with all internal and external stakeholders. SBP, at the time of review or initiation of new Prudential Regulations, warmly welcomes suggestions/comments from all stakeholders, and finalizes them after giving due weightage to such recommendations/ suggestions. Also, even after finalization of the regulations, SBP receives comments and suggestions from various stakeholders on continuous basis for consideration and further improvement of the Regulations.

5. On how many areas, the SBP Prudential Regulations are available?

The SBP has so far issued Prudential Regulations on the following areas:

- Corporate / Commercial Banking (issued by Banking Policy & Regulation Department)
- Small and Medium Enterprises Financing (issued by Banking Policy & Regulation Department)
- Consumer Financing (issued by Banking Policy & Regulation Department)
- Micro Finance Institutions (issued by SME & Micro Finance Department)
- Agricultural Financing (issued by Banking Policy & Regulation Department)

6. Do the previous regulations, both Prudential Regulations and Rules of Business for NBFIs, stand withdrawn after the introduction of new Prudential Regulations?

The new Prudential Regulations have been thoroughly reviewed and made applicable to both banks and DFIs, as against the previous regime of separate sets of regulations for banks and NBFIs (including DFIs). The new Prudential Regulations completely replace the previous Prudential Regulations and Rules of Business for NBFIs, which now stand withdrawn, with the exception of the following cases, where clarifications may be noted:

OLD PRUDENTIAL REGULATIONS/ RULES OF BUSINESS FOR NBFIs	CURRENT STATUS

Prudential Regulations	
Regulation-X: Bank Charges on Import and Export & Communicating Schedule of Charges to the Banks' Branches	Instructions are no longer part of the new Prudential Regulations, but remain applicable after review of the same vide BPD Circular No.33 of 2003.
Regulation-XIII: Service Charges on PLS Deposits	Instructions are no longer part of the new Prudential Regulations, but remain applicable after review of the same vide BPD Circular No. 23 of 2003.
Regulation XXV: Scale of Penalties	Instructions are no longer part of the Prudential Regulations but will continue to be applicable on **Banks and DFIs**

Rules of Business for NBFIs (including DFIs)	
Rule-3: Creation and Building-up of Reserve	Instructions do not form part of the new Prudential Regulations, but are applicable on **DFIs** after review of the same vide BPD Circular No. 15 of 2004
Rule-6: Maintenance of Liquidity Against Certain Liabilities	Instructions do not form part of the new Prudential Regulations, but are applicable on **DFIs** after review of the same vide BSD Circular No. 04 of 2004
Rule-13: Restriction on Certain Types of Activities	Instructions do not form part of the new Prudential Regulations, but are applicable on **DFIs** after review of the same vide BPD Circular No. 15 of 2004
Rule-15: Submission of Statistical Returns by NBFIs	Instructions do not form part of the new Prudential Regulations, but are applicable on **DFIs and Banks** after review of the same vide BSD Circular No.17 of 2002
Rule-16: Removal of Records Without the Prior Permission of the SBP	Instructions do not form part of the Prudential Regulations but will remain applicable on **DFIs**
Rule-19: Opening a New Place of Business with Prior Permission from State Bank of Pakistan	Instructions do not form part of the Prudential Regulations but will remain applicable on **DFIs**

7. **Does SBP allow relaxation / exemption from any Prudential Regulation?**
State Bank of Pakistan issued Prudential Regulations for strict compliance by banks/DFIs. However, in exceptional cases, relaxation/ exemption may be allowed by SBP from a particular regulation on the request of the bank/DFI, keeping in view the merits of the case.

8. **What information / documents are required to be submitted to SBP, while applying for exemption from a certain Prudential Regulation?**
The request letter from banks/DFIs for exemption should be accompanied by details of all relevant facts and figures, necessary for proper analysis of the

request. As most of the exemption requests relate to Regulation R-1 (per party limit) and Regulation R-5 (current ratio & total exposure limit), the following minimum information/ documents should accompany them:

Regulation R-1

i) Information of the bank's/DFI's exposure to the borrower on the following format:
   1. Nature of Facility (funded / non-fund based etc.)
   2. Existing Exposure
   3. Proposed Exposure
   4. Total Exposure
   5. Existing Waivers
   6. Net Exposure
   7. Per Party Limit
   8. Breach

ii) Latest audited financials of the borrower along with latest un-audited position if any.

iii) Copy of previous relaxation letters if any.

iv) Latest CIB Report of the party.

v) Details of securities accepted by the bank/DFI.

vi) Brief history of the borrower's relationship with the bank along with bank's recommendation in **clear terms.**

vii) Any other information/document relevant to the bank's request.

Regulation R-5

i) Latest audited financials of the borrower along with latest un-audited position if any.

ii) Copy of previous relaxation letters if any.

iii) Latest CIB Report of the party.

iv) Details of securities accepted by the bank/DFI.

v) Brief history of the borrower's relationship with the bank along with bank's recommendation in **clear terms.**

vi) Details of financing facilities obtained by the borrowers from other banks/DFIs.

vii) Any other information/document relevant to the bank's request.

9. Who is authorized at the lending bank/DFI to sign the request letter for exemption/clarification from Prudential Regulation?

The request letter for exemption or seeking any clarification with respect to a certain Prudential Regulation should be signed at least at the level of Group Head of the concerned business area to which the request relates.

10. Does a relaxation given by the SBP necessarily mean entitlement of a borrower to avail loans from a bank/DFI?

No. Relaxation given by the SBP from any Prudential Regulation does not necessarily mean that the concerned borrower cannot be denied the requested financing facilities. The decision to approve or disapprove the request for financing facilities, despite SBP relaxation, rests finally with the lending bank/DFI based on the risk assessment of the borrower.

11. Can the banks/DFIs ask their customers to fulfill more requirements/conditions than required in the Prudential Regulations?

Yes. The Prudential Regulations issued by SBP are the minimum requirements to be complied by the banks/DFIs. Thus, the banks/DFIs may ask their customers to fulfill additional requirements deemed necessary by them. For example, Prudential Regulations require banks/DFIs to obtain copy of accounts from customers only in cases where the exposure exceeds Rs. 10 million. However, if a bank/DFI considers necessary, it may require its customer to provide copy of accounts even in cases of lower exposure than Rs. 10 million.

12. What is the criteria for classifying a loan?

Apart from objective criteria (based on time frame of the default), subjective criteria is also used for classification of a loan, which may include inadequate cash flow patterns of the borrower, inadequacy of his security and other market conditions relevant for the particular business of the borrower etc.

13. Are different loans under Corporate, SME and Consumer classified (objectively) with different criteria?

The criteria of classification of different loans (both short term and long term) is similar in the case of Corporate and SME lending. Whereas, in the case of Consumer Lending, the criteria is different as compared to Corporate and SME lending. For example, the short-term loans, under the Corporate and SME Financing, are classified into Loss category after a default period of 1 year, whereas a Consumer loan product of a short term (e.g. Credit Card) is classified as loss after a default period of 6 months only.

14. Do the three types of financing viz. Corporate, SMEs and Consumer have the same limit for 'Clean Financing' i.e. of Rs 0.5 million?

No, there are different limits of clean loans for each of these i.e. for SMEs it is Rs 3 million, for Corporate it is Rs 0.5 million, and for Consumer Loans two separate clean limits of Rs 0.5 million each (Credit Card and Personal Loans) have been prescribed. A person can simultaneously avail both the two clean consumer products (Credit Card and Personal Loan) at a time. Apart from this, the banks/DFIs may also assign a clean limit beyond the limit of Rs 0.5 million but not in excess of Rs 2 million, in respect of **Personal Loan and Credit Card separately.** This limit in excess of Rs 0.5 million up to Rs 2 million may be allowed only to the banks/DFIs' prime customers who have extraordinary strong repayment capacity, moderate debt burden and a clean track record, provided the aggregate outstanding in this respect should not exceed 10% of the total outstanding portfolio under the respective head of Personal Loan and Credit Card at any point in time.

15. Do Prudential Regulations for Corporate/ Commercial Banking cover only 'Corporate Customers'?

Any borrower, who does not fall in the jurisdiction of Prudential Regulations for SMEs Financing and Prudential Regulations for Consumer Financing, will be subject to provisions of Prudential Regulations for Corporate/Commercial Banking. Thus a borrower, under the Prudential Regulations for Corporate/Commercial Banking, may be an individual, proprietorship, partnership or a company.

16. Do 'Other Form of Security' (hypothecation of stock, assignment of receivables, lease rentals and contract receivables) makes every loan transaction secured?

The term 'Other Form of Security' has been defined only in Prudential Regulations for Corporate/Commercial Banking and Prudential Regulations SMEs Financing, which make a loan transaction secured under the concerned regulations. Whereas, Prudential Regulations for Consumer Financing do not recognize ‘Other Form of Security’.

17. Does the SBP require the banks/DFIs to obtain personal guarantees of the directors of private limited companies in case of financing facility to private limited companies?

The SBP does not require the banks/DFIs to obtain personal guarantees from directors of the private limited companies under Prudential Regulations for Corporate/ Commercial Banking; however, the SBP has stipulated in this regard that “the Banks / DFIs shall formulate a policy, duly approved by their Board of Directors, about obtaining personal guarantees of directors of private limited companies. Banks/DFIs may, at their discretion, link this requirement to the credit rating of the borrower, their past experience with it or its financial strength and operating performance.”

As far as the loans given under the Prudential Regulations for SMEs Financing are concerned, SBP requires the banks/DFIs to obtain personal guarantees from the directors of the private limited companies except the nominee directors.

18. Would the loans/advances, allowed prior to the issuance of the new Prudential Regulations, also be subject to application of the new Prudential Regulations?

The loans/advances allowed prior to the issuance of the new Prudential Regulations would be subject to the old Prudential Regulations till the date of their liquidation or renewal whichever occurs first.

19. What are the minimum margin requirements against certain types of securities?

SBP has withdrawn the margin requirements against different securities, with the exception of shares, TFCs, caustic soda and wheat which are still subject to certain margin requirements when accepted as collaterals against financing facilities. It may, however, be noted that in respect of other securities, the banks/DFIs are free to prescribe certain margin requirements as and when they deem fit.

20. Can a bank/DFI accept software as collateral?

No, software cannot be accepted as collateral.

21. Whether a commercial bank can consider lending/opening of accounts of a person who is in possession of the old NIC with its application for Computerized NIC in process?

If the intending borrower/or the would be account holder does not have CNIC but has applied for the same and in claim shows his / her token receipt issued by NADRA, the bank may waive the condition of CNIC by obtaining undertaking to the effect that CNIC will immediately be submitted as and when received from the NADRA.