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SBP PROPOSES AMENDMENTS IN BANKING COMPANIES ORDINANCE
TO MITIGATE POTENTIAL RISKS: DR AKHTAR

The Governor, State Bank of Pakistan, Dr Shamshad Akhtar, has indicated that SBP is positioning itself for moving to consolidated supervision, in anticipation of amendments in the Banking Companies Ordinance (BCO), 1962 to empower SBP to launch this initiative. She said that this is a timely move in the wake of potential risks arising from complex structures of financial groups and emergent supervisory challenges. Dr Akhtar disclosed that the SBP has proposed significant amendments in the Banking Companies Ordinance.

The objective of these proposed amendments is to strengthen the oversight of financial sector in accordance with the “Ten Year Strategy and Blueprint of Financial Sector Reforms” of the State Bank of Pakistan, she said while delivering her key-note address on ‘Pakistan: Framework for Consolidated Supervision’ at the 58th Annual General Meeting of the Institute of Bankers Pakistan (IBP) in Karachi today.

‘Although Pakistan’s financial sector as a whole has a lot to gain through increased integration and conglomeration, the newly emerging phenomenon has to be properly monitored and governed under proper legal framework to mitigate the potential risks,’ Dr Akhtar added.

The SBP, as a part of its overall financial sector reforms launched in July 2008, has been advocating the need for legislature to empower the central bank to augment its oversight of the financial sector, she said and added the legislative reforms launched by SBP in this area have recently been approved, in principle, by the Cabinet and will to be tabled for consideration of the Parliament.

SBP Governor said the banking sector being at the core of all activities of the financial sector, its safety and soundness is critical for public, financial sector itself and the economy as a whole. ‘However the current legislation and regulatory tools are not adequate to effectively address the threats to safety and soundness of the financial sector,’ she observed.

Dr Akhtar said that the amendments proposed by SBP would result into significant benefits in the form of operational efficiency, lower costs, reduced prices and innovation in products and services. She said that one of the Core Principles for effective banking supervision (CP-24) issued by Basel Committee on Banking Supervision requires that a banking supervisor should be able to supervise the banking groups on a consolidated basis. Presently, Pakistan is either compliant or largely compliant with all the core principles except those dealing with consolidated supervision, she said and added: ‘The proposed amendments would enable Pakistan to ensure compliance with this principle.’

Elaborating further on the amendments in BCO, she said that the major changes were being proposed in the Banking Companies Ordinance to bring all deposit taking Non Bank Financial Companies (NBFCs) like Investment Banks, Leasing Companies and Housing Finance Companies completely under the fold of SBP. The major rationale behind this move is that these NBFCs are engaged in activities which are quite incidental to banking both on the liability as well as asset side. ‘Bringing such entities under SBP would lead to greater

supervisory efficiency as being regulator of banks its supervisory approach is well equipped for their kind of business’, she added.

Dr Akhtar said another change being sought in BCO is to authorize SBP to designate and regulate the financial groups. Financial group for this purpose will be any group containing at least one of the entities, directly regulated by SBP, she said and added this is an extremely important step because it will enable State Bank to effectively monitor the intra-group potentially dubious transactions involving banks and NBFCs and also would enable it to curtail the possible contagion risk. The proposed amendments would also enable SBP to seek information from the unregulated commercial entities and conduct limited inspection for verification of such information, she added.

SBP Governor observed that for entities in a financial group, which are falling under securities regulator’s supervision, current supervisory mechanism also needs to be amended to move towards greater consolidated supervision. She further said that the time is ripe for the introduction of a Financial Holding Company (FHC) concept. “In order to facilitate the FHC model, we are also seeking several amendments in the BCO covering its definition, licensing and supervision (which will be by SBP), capital requirement and various other aspects, she added. (Text of SBP Governor’s key-note address is available at SBP website <http://www.sbp.org.pk/>).
