A Chronology of Policy Announcements

A-1 Banking Policy & Regulation Group

Date of Announcement	Circular/Circular Letter No	Policy Decision
01 January 2008	BSD Circular No. 01	**Minimum Capital Requirements – Implementation of Basel II -** In terms of the issued timeline, all banks/DFIs are required to adopt standardized approaches for Credit and Market Risk and Basic Indicator/Standardized approach for operational risk from 1st January 2008; while they are advised to adopt a parallel run of two years for IRB approaches starting 1st January 2008. The SBP instructions further require that adoption of Foundation or Advanced IRB for Credit and Internal Models Approaches for Market Risk will be subject to the prior written approval of State Bank, and banks/DFIs were advised to approach the State Bank for necessary approval. Keeping in view the roadmap of Basel II Implementation in Pakistan the banks/DFIs are advised as under: a. The standardized approach will become effective from 1st January 2008, and the banks/DFIs should report their capital adequacy accordingly. However, they should also continue to submit their calculations based on Basel I until such time as the SBP issues instructions to terminate the same. b. The transition towards advanced approaches will be based on SBP's assessment on adequacy and state of preparedness in data warehousing, IT systems, gap analysis and filling etc.
14 February 2008	BSD Circular No. 05	**Minimum Capital Requirements – Implementation of Basel II -** In order to clarify the definitions of the Corporate and Retail exposures as provided in the Section No. 2.1.3 and 2.1.5 respectively, of the above referred Circular, it is advised that:- a) The upper limit of Retail exposures has been raised to Rs. 75 million; and b) All Public limited companies incorporated under Companies Ordinance, 1984 or any other statute will not fall under the definition of Retail, regardless of their exposure.

20 March 2008	BSD Circular No. 07	**Prudential Regulation No.4: Minimum Capital Requirements for Micro Finance Banks -** In exercise of the powers vested under Section 10 of the Microfinance Institutions Ordinance, 2001 the State Bank of Pakistan (SBP) has decided to revise the minimum capital requirements for Microfinance Banks (MFBs). Accordingly, Prudential Regulation No.4 of the Prudential Regulations for MFBs has been substituted as under with immediate effect: Microfinance Banks (MFBs) shall maintain a minimum paid up capital, *free of losses*, of not less than: i) One hundred million rupees for MFBs licensed to operate in a specified district; ii) One hundred and fifty million rupees for MFBs licensed to operate in a specified region; iii) Two hundred and fifty million rupees for MFBs licensed to operate in a specified province; and iv) Five hundred million rupees for MFBs licensed to operate at national level. 1) All MFBs are required to maintain at all times the minimum paid up capital (free of losses) as prescribed in Para 1 above. However, in case any of the existing MFB does not meet the prescribed minimum paid up capital requirement, it shall make up the shortfall latest by 31st December, 2008. 2) The MFBs shall also maintain Capital Adequacy Ratio (CAR) equivalent to at least 15% of their risk weighted assets. Instructions on calculation of CAR based on risk weighted assets are provided in Annexure-A. For the purpose of maintaining minimum CAR, MFBs are also allowed to raise subordinated debt in local currency, subject to obtaining prior written approval from the SBP. The terms and conditions for raising subordinated debt are provided in Annexure-A.”
09 May 2008	BSD Circular No. 09	**Minimum Capital Requirements – Implementation of Basel II -** It has been decided that the book value of other intangible assets including software, brand value etc. in addition to goodwill, will also be deducted from Tier-1 capital when arriving at the eligible regulatory capital for the purpose of calculating Minimum Capital

		Requirements. Accordingly, section 1.3.5 "Capital Deductions" of the detailed instructions stands amended as in Annexure-A. Moreover, for reporting purposes, the head 1.8 "Book value of Goodwill" in the CAP-1 sheet of the MCR reporting format for Basel II Standardized Approach as issued vide BSD Circular No. 2 dated March 26, 2007 is replaced with "Book value of Goodwill and Intangibles". All other instructions on the subject shall, however, remain the same.
28 June 2008	BSD Circular No. 16	**Minimum Capital Requirements – Implementation of Basel II -** State Bank of Pakistan has time and again advised the banks/DFIs to strengthen their risk management functions, adopt international standards and implement sound practices. In the same context, all the banks/DFIs are required to implement the Standardized Approaches of Basel II from January 01, 2008. SBP has decided that the transition to the Advanced Approaches of Basel II will be discretionary for all the banks/DFIs. However, the transition will be subject to prior written approval of the State Bank. It is clarified that only those institutions that plan to make a transition to the Advanced Approaches within the next five (5) years, are required to submit their Action Plans as required vide BSD Circular Letter No.02 dated April 29, 2008.
29 April 2008	BSD Circular Letter No. 02	**Minimum Capital Requirements – Implementation of Basel II -** In terms of the issued directives, all banks/DFIs are required to submit to State Bank of Pakistan, Banking Surveillance Department, an action plan latest by April 30, 2008 spelling out the activities and the expected timelines to develop systems for meeting the requirements for advanced approaches as laid down in BSD Circular No. 8 dated June 27, 2006. On the representation of PBA, it has been decided to extend the date for submission of the Action Plan till July 31, 2008. However, banks/DFIs are required to ensure that the plans thus submitted are realistic and reasonable from the perspective of their own capacity and regulatory acceptance. All other instructions on the subject shall remain unchanged.
24 June 2008	BSD Circular Letter No. 03	**Internal Credit Rating System – Obligor and Facility Ratings -** In terms of Para 4 and 5 of the above referred Circular, the Banks/DFIs were required to develop their internal credit risk rating policy duly approved by their Board of Directors and submit a copy of the same to Banking Surveillance Department, State Bank of Pakistan latest by 30th June, 2008. Furthermore, the Banks/DFIs were required to map their internal risk rating grades to the grades provided by the State Bank

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<tr><td></td><td></td><td>and report these mapped ratings in their regular e-CIB reporting in the field IBRATING from the month of July 2008.

On the representation of banks, it has been decided to revise the deadlines for implementation of these instructions as under:

i) All Banks/DFIs should put in place Internal Credit Risk Rating policy duly approved by their Board of Directors latest by 31st August 2008. No further relaxation in this regard will be granted.

ii) Banks/DFIs should rate all their corporate customers latest by 30th September 2008 and report ‘Corporate Ratings’ in the e-CIB from the month of October 2008.

iii) They should start rating/scoring their new consumer customers from the month of October 2008. The rating/scoring of the existing customers should be completed by 31st December 2008. They must start reporting rating/scoring in e-CIB from January 2009.

iv) As to Facility Ratings, Banks/DFIs should continue their efforts to establish their systems as early as possible.</td></tr>
<tr><td>24 August 2007</td><td>BSD Circular Letter No. 09</td><td>Minimum Capital Requirements – Revised Regulatory Capital Framework under Basel II – It has been decided that the banks/DFIs can also use the ratings assigned by the following international rating agencies as per mapping given in enclosed Annexure-1 {Table 2.3(a)} for assigning risk weights for capital adequacy purposes:

i. Fitch Ratings;
ii. Moody’s; and
iii. Standard & Poors (S&P)

Banks/DFIs can use the entity ratings of above mentioned international rating agencies for the purpose of risk weighting their foreign currency exposures either in Pakistan or outside Pakistan. However, where ratings by the local rating agencies are not available for exposures in Pakistan Rupees, ratings by these international rating agencies can be used. All other instructions on the subject, shall, however remain unchanged.</td></tr>
<tr><td>28 November 2007</td><td>BSD Circular Letter No. 10</td><td>Minimum Capital Requirements – Implementation of Basel II - In view of the difficulties faced by the</td></tr>
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		banks / DFIs in collection of data on the subject, it has been decided to allow a relaxation of 15 days in the 30 days deadline for submission of the capital adequacy reports as required under above referred circular for the forthcoming two quarters. The banks/ DFIs will submit the Basel II based quarterly statements on calculation of their capital adequacy ratios, consolidated as well as on standalone basis, on the prescribed formats within 45 days from the end of the quarters ending 31 December 2007 and 31 March 2008 only. From the quarters ending 30th June 2008 and onward, the banks/ DFIs shall continue to follow the timeline as communicated under the above referred circular. The banks / DFIs are further advised to streamline their process for timely submission of the reports on calculation of capital adequacy ratios. All other instructions on the subject, shall, however remain unchanged.
29 October 2007	BSD Circular No. 08	**Guidelines on Internal Credit Risk Rating Systems in Banks/DFIs** Proper identification and measurement of risk are prerequisites for an effective risk management. As the credit risk is the primary financial risk in the banking system, it should be efficiently and properly identified and measured, at all individual exposure levels. The assessment of the ability of each of counterparty to fulfill its credit obligations is pre-requisite for building a robust credit risk management mechanism in every financial institution. This evaluation process is generally carried out through a credit risk rating/scoring mechanism. The importance of such mechanism necessitates that all financial institutions should have carefully designed risk rating systems to strengthen their overall risk management framework. 2. Keeping in view the importance of internal risk rating systems in the credit risk management and to further strengthen the risk management functions in banks/DFIs, State Bank has prepared guidelines on Internal Risk Rating Systems which are attached. These guidelines will supplement the Guidelines on Risk Management already issued vide BSD Circular No. 07 dated August 15, 2003. 3. Banks/DFIs are free to adopt any of the rating systems/methodologies/techniques keeping in view their size, complexity of operations and clientele base and may have as many credit grades as they wish. However, for reporting purpose to the State Bank, banks are

		required to map their ratings to the SBP grades defined in the Annexure A of the guidelines. The mapping should be based on the given definitions and the bank's internal definitions of the credit ratings. 4. All banks and DFIs are required to develop their internal credit risk rating policy duly approved by their Board of Directors and formulate a robust risk rating framework. Such developed policy may be made part of their credit risk or risk management policy. The policy covering Obligor Ratings, as mentioned in Section 3.2(2) of the attached guidelines, must be developed and all exposures must be rated in the light of such developed policy latest by June 30, 2008. 5. A copy of the policy should be sent to Banking Surveillance Department, State Bank of Pakistan latest by 30th June 2008. Banks/DFIs are further advised to map their internal risk ratings grades to the grades provided by the State Bank and report these mapped ratings in their regular eCIB reporting in the field IBRATING from the month of July 2008. 6. All Banks/DFIs are encouraged to establish their systems for carrying out Facility Ratings as mentioned in Section 3.2 (2) as soon as possible. They are further advised to submit a plan, latest by 31st March 2008, mentioning therein the detail of the identified activities with timelines for establishing the system for Facility Ratings. 7. Eventually all the banks will be required to further strengthen their internal risk rating systems as per the detailed requirements issued for the Internal Rating Based (IRB) approaches of Basel II.
31 March 2007	BPRD Circular No. 2	**Branchless Banking Regulations for Financial Institutions** Branchless Banking represents a convenient alternative to conventional branch-based banking that allows financial institutions and other commercial players to offer financial services outside traditional bank premises by using delivery channels like retail agents, mobile phone etc. In view of encouraging innovation and increasing outreach of the banking system, the State Bank of Pakistan has decided to issue the enclosed Branchless Banking Regulations. These Regulations will be applicable to banks including Islamic banks and Microfinance banks (MFBs) with immediate effect.
09 April 2008	BPRD Circular No. 3	**Regulations For Continuous Funding System (CFS**

		MK II) Financing To ensure prudent lending in CFS MK II by Banks/DFIs, State Bank of Pakistan is issuing the enclosed regulations for CFS MK II financing. These regulations will provide appropriate regulatory framework to Banks/DFIs. The areas not covered under these regulations will be governed by Prudential Regulations for Corporate/Commercial Banking. The Banks/DFIs who already have exposure over and above the limit/ breach this limit are advised to adjust the same within a period of three months from the date of issuance of these Regulations under intimation to SBP.
13 July 2007	BPRD Circular No. 9	**Guidelines on Outsourcing Arrangements** In view of an increasing use of outsourcing of a number of services by banks and potential impact of associated risks on their overall strategic goals, operations, profitability and obligations to customers and regulators, State Bank of Pakistan has decided to issue the enclosed guidelines on outsourcing arrangements. These guidelines will be applicable on all Banks (including Islamic Banks), Development Finance Institutions and Microfinance Banks. 2. The guidelines are in addition to, and not, in derogation of any other related regulations/rules/laws. The State Bank of Pakistan during the course of inspection will check compliance with the guidelines.
14 July 2007	BPRD Circular No. 10	**Guidelines for Issuance of Depository Receipts** Keeping in view the increased interest of banks to raise equity from foreign markets through Depository Receipts and to manage the regulatory risk resulting there from, State Bank of Pakistan has developed guidelines for issuing and listing of depository receipts.
01 August 2007	BPRD Circular No. 12	**Pricing of Lending Products and Loan Documentation** Please refer to BPD Circular No.06 dated July 14, 2006, wherein Banks/DFIs were advised to make proper disclosure of the lending and deposit rates of all consumer products offered by them including information of whether the rate is fixed or floating, tenor of the benchmark (KIBOR or any other rate plus a pre-defined spread) used and frequency of re-pricing.

		2. It has been observed that some banks change the margin over KIBOR during the tenor of the loan. Banks/DFIs have to determine the margin over KIBOR at the outset of the transaction; however, once the margin is agreed with the customer, bank/DFIs should not increase it during the tenor of the loan. In some cases, banks/DFIs include clause(s) in the loan documentation which allow them to change the margin anytime during the tenor of the loan. This practice defeats the purpose of establishing a benchmark for pricing a floating rate loan and is also against the instructions issued vide above referred Circular. 3. In order to ensure transparency in the pricing and documentation of loans, the following instructions are being issued for strict adherence by the banks/DFIs: i) Banks/DFIs shall clearly indicate in the loan documents whether financing is on fixed rate or floating rate basis. In case of fixed rate loans the rate shall not be increased during the tenor of the loan. ii) In case of floating rate loans, Banks/DFIs will clearly specify the margin over the benchmark (KIBOR or any other rate). Also the Banks/DFIs will not increase the margin during the tenor of the loan. iii) All banks/DFIs should clearly spell out the pricing (KIBOR or any other benchmark rate plus a pre-defined margin not changeable to the detriment of the borrower during the term of credit) and the re-pricing frequency in their loan documents. In case of re-pricing, the rate will change only if there is a change in the benchmark rate (KIBOR/other benchmark) over the tenor of the loan. iv) The loan agreement should not contain the clauses/stipulations to change the rate unilaterally. v) All charges, other than mark-up, including fees/prepayment penalties etc. to be recoverable by banks/DFIs should be determined and clearly disclosed to the customers at the time of entering into agreement. All such charges shall be locked and their upfront full disclosure shall be made and agreed with the customers in the loan agreement. vi) A complete amortization schedule should be provided to the customer along with the facility offer letter showing the breakup of principal and mark up to be paid by the customer over the life of the loan/finance or till the next re-pricing date for fixed and floating rates

		respectively. In case of resetting/revisiting the floating rates, a new amortization schedule should be issued to all existing customers informing them about the new rates on loan/finance which should be determined in line with the benchmark agreed at the time of lending. vii) As implementation of requirement at Para 3(vi) above may require changes in the IT system, banks/DFIs should make necessary arrangements for updating their IT systems within a period of three months of issuance of this Circular for issuing new amortization schedule on re-pricing of loans to the existing customers. For new customers/borrowers banks/DFIs shall implement this requirement immediately. viii) A statement showing outstanding position of principal and markup should be issued to the customers on half yearly basis or more frequently as per policy of the bank/DFI. ix) The loan and other documents obtained from the customers should be duly filled in at the time of signing of the loan agreement. x) Any negotiation with the customers for restructuring/rescheduling of a loan/ facility should be done in writing and in a transparent manner in accordance with the duly approved policy of the bank/DFI. 4 . All banks/DFIs are advised to ensure strict compliance of the above instructions in letter and spirit as non-compliance will attract punitive action under Banking Companies Ordinance, 1962.
12 October 2007	BPRD Circular No. 15	**Revised Branch Licensing Policy** State Bank of Pakistan (SBP) since 2002 has liberalized the Branch Licensing Policy (BLP) with a view to allow the banks to make their branch housing decision within the broad policy parameters. The changes have also been made with the aim to enhance the outreach of banking services to rural/underserved areas of the country. SBP continuing with its above endeavor has revisited the existing BLP with the following objectives:- i. Consolidate existing policies/instructions issued on branch licensing including opening of branches abroad, opening of branches by MFBs, and DFIs, shifting of branches, annual fee, etc.

		ii. Amend the existing instructions for opening of 20% branches in rural/underserved areas for the purpose of enhancing the outreach of banking services. iii. Introduce new features/options for opening of sub-branches, sales & service centres and mobile banking units. iv. Simplify the forms for submission of various applications for licensing, shifting, closing, etc of branches. v. Rationalize some of the existing instructions for ensuring statutory/regulatory compliance. 2. A revised BLP is enclosed for information and strict compliance. The policy will become effective immediately. 3. This supersede the existing instructions issued vide BPD Circular No. 19 dated 16th June, 2004, Circular No.31 dated 5th October, 2004, Circular No.34 dated 2nd November, 2004, Circular Letter No.01 dated 4th January, 2005 and No.04 of 15th February, 2005, BPD Circular Letter No.11 dated 21st March, 2005, and BPRD Circular No. 13 dated 25th August, 2007.
11 August 2007	IBD Circular No. 03 of 2007	**Directive under Section N 41 of BCO, 1962** It was noted that some banks were marketing their products by using the name of Islamic or Shariah compliant modes of financing without obtaining an Islamic banking license from State Bank of Pakistan. Such products often do not comply with the 'Essentials of Islamic Modes of Financing' issued by SBP notwithstanding the fact that such product offerings violate regulations and guidelines in force. It was therefore advised that, all banks not authorized by issuance of an Islamic banking license from SBP are directed under Section 41 of the Banking Companies Ordinance, 1962, not to offer products in the name of Shariah compliant products and services without first obtaining an Islamic banking license from SBP in terms of IBD Circular No. 2 of 2004 as amended from time to time. Furthermore, any recoveries made or penalties imposed by banks from their clients in excess of originally agreed pricing under the purported Shariah compliant products, were also to be forthwith refunded to respective customers within 15 days of the circular with

		confirmation in writing of the same to Director, Islamic Banking Department.
16 August 2007	IBD Circular No. 04 of 2007	**Fit and Proper Criteria for Shariah Advisors** For the purpose of Fit & Proper Criteria for Shariah Advisors, Takaful companies have been included in the definition of financial institutions. Furthermore the Shariah Advisors working for an IBI and holding any executive/non-executive position in any other financial institution, except as Shariah Advisor of Islamic mutual funds of the same IBI, were required to regularize the position and relinquish either of the posts by June 30, 2008.
10 September 2007	IBD Circular No. 05 of 2007	**Guidelines for Islamic Microfinance Business** With the growing popularity of Islamic Banking in the country, it was deemed necessary to provide options for provision of Islamic microfinance services by microfinance and commercial banks as well as allowing full fledged Islamic microfinance banks in the country. Consequently, State Bank of Pakistan formulated guidelines for provision of Islamic microfinance products and services by financial institutions. These guidelines are aimed at broadening the coverage of microfinance products and services to low income segments of the society in a Shariah compliant manner. These guidelines stipulate four types of institutional arrangements for offering Islamic microfinance viz: 1. Establishing Full Fledged Islamic Microfinance Banks (IMFBs) 2. Islamic Microfinance Services by Full-fledged Islamic Banks 3. Islamic Microfinance Services by Conventional Banks 4. Islamic Microfinance Services by Conventional Microfinance Banks (MFBs) The criterion mentioned in these guidelines is in addition to the requirements already issued by SBP under respective category of financial institutions. These regulations and guidelines, by any means, do not replace the regulations and guidelines already issued by SBP from time to time in this area. Commercial and microfinance banks interested in building Islamic microfinance portfolio have been advised to review the different institutional/organizational arrangements and select, one

		or the combination of more than one mode, based on their organization structure, capacity and overall objectives.
10 November 2007	IBD Circular No.06 of 2007	**Information about Islamic Banking Windows** In terms of Para 10(v) of Annexure III to IBD Circular No.2 of 2004, banks having Islamic Banking Branches(IBBs) may authorize some of their branches to sell Islamic banking deposit schemes in order to efficiently utilize the existing branch network provided they comply with conditions mentioned therein. Keeping in view the growing trend among banks to open Islamic Banking windows and to strengthen the regulatory framework and maintain information about window operations, all conventional banks having IBBs have been advised to submit to Islamic banking department following information before start of each Islamic banking window operations: - • Details of products & services to be offered in IB window • Details of systems and controls put in place in compliance with IBD Circular No. 2 of 2004. • Commission/fee arrangement with authorized branch. • Details about training of Human Resource in Islamic Banking. • Contact details of Islamic Banking Window
02 January 2008	IBD Circular No. 01	**Risk Management Guidelines for Islamic Banking Institutions** The State Bank of Pakistan formulated Risk Management (RM) Guidelines for Islamic Banking Institutions (IBIs) with a view to further strengthen the regulatory framework in the area of risk management for IBIs. These RM Guidelines are based on a 'Guiding Principles of Risk Management for Institutions offering Islamic Financial Services' issued by Islamic Financial Services Board (IFSB), which is an international-standard setting body of regulatory and supervisory agencies and the same have been tailored keeping in view the regulatory regime of State Bank of Pakistan. However, these guidelines are in addition to the various Risk Management Guidelines issued by SBP from time to time and IBIs will be required to comply with both set of guidelines. These guidelines provide a set of principles of best

		practice for establishing and implementing effective risk management in IBIs. These guidelines set out fifteen principles of risk management and provide guidance for each category of risk, drawn from discussion on Islamic Financial Industry practices. Further, these set of principles are applicable to the six categories of risks viz: Credit risk, Market risk, Liquidity risk, Operational risk, Equity investment risk and Rate of return risk. For each type of risk, Risk management practices have been discussed giving examples of specific Islamic banking modes of financing and according to various roles that an Islamic Banking Institution may perform. These guidelines further complement and enhance the current Risk Management regime of SBP by identifying and suggesting technique to manage various types of risks unique to Islamic Banking Institutions. Most of the IBIs in Pakistan being new entrants in the market, they have been encouraged to put in place an effective risk management strategy right from the start based on the said guidelines as well as other guidelines issued by SBP. These guidelines are flexible in the sense that IBIs can adapt them in line with the size and complexity of their business.
25 March 2008	IBD Circular No. 02	**Instructions and Guidelines for Shariah Compliance in Islamic Banking Institutions** In order to ensure effective Shariah compliance in the Islamic banking industry and maintain trust of the depositors and other stakeholders on the system, a proper Shariah compliance mechanism has been put in place by SBP. In pursuance of its goal to further strengthen the Shariah compliance framework in the Islamic banking industry, ‘Instructions and Guidelines for Shariah Compliance’ were finalized in consultation with various stakeholders which were also reviewed and approved by the SBP Shariah Board. These Instructions and Guidelines for Islamic Banking Institutions (IBIs) are in addition to current Prudential Regulations, guidelines and other circulars and directives issued by different departments of SBP and are not replacing them by any means, unless specifically mentioned otherwise. The ‘Instructions for Shariah compliance in IBIs’, cover various areas related to appointment, removal and working of Shariah Advisors; conflict resolution in Shariah rulings; Shariah compliant modes; use of charity fund, introduction of new products and services and schedule of service charges etc. The essentials of

		Islamic modes of financing, earlier issued by SBP through a press release on April 15, 2005, have now been augmented and made part of these instructions and appended as Appendix-A thereto. Furthermore, in exercise of the powers conferred by clause (o), subsection (1) of section 7 of Banking Companies Ordinance, 1962, State Bank of Pakistan through these Instructions has specified Shariah-compliant modes of banking and finance for IBIs. Annexure-I of BCD Circular No.13 dated 20th June, 1984 stands replaced by section 'E' of these instructions insofar as it relates to IBIs. Further, as the requirements of IBD Circular No. 1 dated March 05, 2007 have been made a part of these Instructions, therefore the said circular stands withdrawn. The 'Guidelines for Shariah compliance in IBIs' are meant for providing guidance in areas like Shariah compliance, internal Shariah audit, investment in shares, policy for profit distribution with PLS account holders and financial reporting and general disclosure etc. Necessary flexibility has been provided in these guidelines and IBIs can set up the suggested systems and procedures keeping in view the size and scope of their operations. These guidelines are being issued on "comply or explain basis" and IBIs shall record reasons in writing for non-compliance with any of these guidelines.
02 July 2007	IBD Circular Letter No. 03 of 2007	**Islamic Financial Accounting Standard-1 (IFAS-1) Murabaha** With reference to : a) SRO No 865(I)/2005 dated August 24, 2005 issued by SECP on captioned subject, in terms of which Islamic Financial Institutions were required to disclose Murabaha transactions at amortized cost and b) BSD Circular No 4 of 2006 dated February 17, 2006, where banks were advised to prepare the Annual Audited Accounts on revised formats. Some Islamic Banking Institutions sought guidance whether they should prepare Quarterly Report of Condition as per requirement of IFAS1-Murabaha. It was clarified that as per Accounting Polices of QRC, banks are required to follow the same polices as used in preparation of Annual Audited Accounts. Therefore Islamic Banking Institutions weare advised that with

		effect from quarter ending on September 30, 2007, QRC would be prepared following the Islamic Financial Accounting Standard -1 "Murabaha".
29 October 2007	IBD Circular Letter No. 04 of 2007	**Submission of Returns to Islamic Banking Department** Since data of Weekly Statement of Position (WSP) was fully captured by RCOA / DAG, therefore IBIs were advised to discontinue the submission of soft copy of Weekly Statement of Position by e-mail with effect from November 03, 2007. Moreover, deadline to submit the data through RCOA / DAG was advised to be two working days following respective weekend as also advised vide BSD Circular No. 4 of 2005 dated July 16, 2005. All other instructions on the subject remained unchanged.
29 November 2007	IBD Circular Letter No. 05 of 2007	**Declaration of Weightages & Profit sharing Ratios** The weightages & Profit sharing ratios are used by Banks to calculate distribution of profit as per the requirements of Shariah covering Islamic Banking. It was being observed that only few Institutions offering Islamic Banking were regularly updating weightages & Profit sharing ratios, before beginning of the period concerned, on their websites; which was not an encouraging situation. Therefore all Institutions offering Islamic Banking were advised to make sure that relevant weightages and ratios are updated regularly, before start of the period concerned, keeping in view the following minimum standards: 1. Weightages & Profit sharing ratios must be made available to all constituents before beginning of the period concerned. The weightages & Profit sharing ratios must be available on website. 2. The statement declaring weightages & Profit sharing ratios must at the minimum contain date of declaration, period for which they remain effective, all categories/pools & bank's equity share and their weighatage, types, sizes, tiers of accounts and actual rates paid during the preceding period. 3. The Statement of weightages & Profit sharing ratios must be prominently displayed in all Islamic Banking Branches. All Islamic Banking Institutions were advised to update the weightages & Profit sharing ratios on their websites within 7 days from issuance date of this Circular Letter.
27 February 2008	IBD Circular Letter No. 01	**Submission of Information regarding Sukuk issued in Pakistan** All Islamic banking institutions (IBIs) i.e. Islamic banks

		and conventional banks having Islamic banking branches were advised to provide information regarding the issuance of those Sukuk where the IBI concerned is involved as an issuer or a lead arranger. The said information will be sent, as a footnote to the Quarterly Report of Condition, to Islamic banking department as per prescribed format.

A-2 Development Finance Group

Date of Announcement	**Circular No.**	**Policy decision**
04 April 2008	ACD circular No. 4	**Awareness Among the Farming Community** In order to increase outreach of agriculture financing, banks need to create awareness among the farming community about their designated branches involved in agriculture financing and agri. loan products being offered by them. In this regard, banks are advised to take the following steps:- 1. Display outside the premises of their branches engaged in agri. finance that “Agri. Loans Are Available Here” in Urdu and / or regional languages. 2. Make arrangements for availability of information in Urdu and / or regional languages in the form of brochures inside their agri. financing branches about their agri. loan products, eligibility criteria, collateral requirements, terms and conditions, etc. and the same may also be displayed on the notice board of the branches. 3. List of all designated agri. credit branches along with names, contact details, and salient features of schemes/ products being offered by banks for agricultural financing shall be placed on bank’s website. Banks are advised to comply with the above instructions by 5th May, 2008, failing which penal action will be taken under Banking Companies Ordinance, 1962.
03 October 2007	MFD Circular No.01	**Commodity Operations Financing (COF)** Guideline to the banks for providing funds to the private sector for procurement of wheat

		during the wheat procurement season 2008. ➢ Funds will be available for procurement of wheat only against pledge of wheat stock. ➢ 25% margin will be applicable. ➢ Loans will be adjusted on or before 31-12-2008 positively. ➢ Banks will not entertain any application for fresh loans after 30-06-2008. ➢ No revaluation of existing stock of wheat for release of any differential amount to borrows.
03 October 2007	MFD Circular No. 06	**Long Term Financing Facility (LTFF)** 3% Mark up Rate subsidy was announced for Spinning Sector.
31 December 2007	MFD Circular No. 07	A new Scheme (viz. Long Term Financing Facility – LTFF) was issued vide said Circular to promote export led industrial growth in the country.
24 June 2008	MFD Circular No. 04	**LTFF Scheme** Effective July 1, 2008 financing for import of generators / captive power plants, to be used in the eligible sectors / sub-sectors as per list given in Schedule 1 of LTFF Scheme, shall also be admissible under the Scheme.
04 February 2008	MFD Circular Letter No.02	LMM Scheme (Local Sales) –Instructions regarding Part-A (Local Sales) were withdrawn vide said letter as said Scheme has been merged into LTFF Scheme.
31 July 2007	SME&MFD Circular No.03	<u>Export Finance Scheme (EFS)</u> EFS was modified and under new mechanism out of 100% of the amount claimed by the exporter, 70% refinance will be provided by SBP & 30% by the bank from their own sources at EFS rate.
31 August 2007	SME&MFD Circular No.04	Existing rate of mark-up on Export Refinance shall continue for the month of September, 2007, the aggregate financing facilities provided by banks under Export Finance Scheme (SBP & bank funded) should continue to carry a maximum mark-up of 7.5% irrespective of the fact that SBP has revised mechanism for grant of refinance, provided request for financing by exporters fulfill

		lending conditions of the financing bank and conditions / criteria prescribed under the Scheme.
07 November 2007	SME&MFD Circular No.05	Following relief have been allowed to Leather Garments industry in respect of refinance availed by them during FY 2006-07:- a) In case of Part I, the exporters of leather garments shall be required to provide evidence of shipments of eligible goods to the extent of 75% of the refinance loans obtained during FY 2006-07 instead of 100% of the loan amount. b) Under Part II of the Scheme, the required performance for financing facilities availed during FY 2006-07 has been reduced to 1.5 times as against existing performance requirements of 2.0 times.
18 April 2008	Circular No.02	In view the problem faced by Carpet Industry, Hand Knotted Carpet exporters were given two facilities; i) Reduced performance requirement level from 2.0 times to 1.5 times for FY 2007-08 ii) Reduced benchmark of shipment requirement from 70% to 60% for rollover purposes under Part-II for FY 2007-08.
20 June 2008	Circular No.03	General relaxations allowed to all exporters i) the exporters who availed pre-shipment finance during 2007-08 and could not ship the goods within a maximum period of 180 days, a grace period of 15 days, has been allowed i.e. no fine for delayed shipment if qualified shipment(s) is /are made within 195 days from the availment of loan. ii) An additional period of one month has been allowed for the exporters having shortfall in required performance under Part-II for the monitoring year 2007-08 i.e. they may include entries showing realization of export proceeds during July, 2008 in their EF-1 statement for the year 2007-08.
22 August 2008	Circular Letter No.SME&MFD/EFS/X/2007-2218	Exporters who are eligible under EFS and also fulfill regular lending conditionalities of a bank should be entertained under the Scheme @ 7.5% p.a. and any refusal on the part of a bank to grant export finance facilities to an exporter otherwise eligible should render it liable for penal action under the Banking Companies Ordinance 1962.
10 October 2007	Circular Letter No.05	Amount of refinance not provided by the SBP i.e., component of the export credit provided by the banks under the Scheme @ 7.5% from their own sources would be deducted from the

		Total Time and Demand Liabilities (TDL) determined for the purpose of computation of both Cash Reserve Requirements (CRR) and Statutory Liquidity Requirements (SLR).

A-3 Financial Market/Reserve Management Group

Date of announcement	Circular No.	Policy Decision
06 July 2007	FSCD Circular No.13	3-day Repo facility restricted to scheduled banks and non-bank primary dealers w.e.f. 7th July 2007 and to DFIs w.e.f. 23rd February 2008.
12 July 2007	FSCD Circular No. 14	Following Financial Institutions have been selected as Primary Dealers for FY08: 1. JS Bank Limited. 2. Pak Oman Investment Company Limited. 3. ABN Amro Bank N.V. 4. Citibank N.A. 5. MCB Bank Limited 6. United Bank Limited 7. Standard Chartered Bank (Pakistan) Limited 8. National Bank of Pakistan 9. Habib Bank Limited
05 October 2007	FSCD Circular No. 19	In order to streamline the data retrieval process of Financial Market Derivative Activities, a new reporting procedure for Authorized Derivative Dealers (ADD) has been introduced w.e.f. October 2007.
31 October 2007r	FSCD Circular No. 20	In an effort to further facilitate the Inter-Bank market and streamline settlement at SBP, BSC, (Bank) Karachi, the inter-Bank settlement timings at SBP BSC (Bank) Karachi has been extended up to 3:30 pm (Mon-Fri) and 1:30 pm on Saturdays.
12 July 2007	DMMD Circular No. 01	In order to further streamline the process of placement of bids in OMO’s, Bank were allowed to submit their bids through the REUTERS Dealing system through “SBPD” code beside accepting bids through Fax. SBP will not accept any bid on Telephone.
29 September 2007	DMMD circular No. 02	In order to further streamline the auction process of Government Securities (Market Treasury Bills and

		Pakistan Investment Bonds) and Open Market Operations, SBP would use its discretion to accept bids submitted in auctions on a 'pro-rata volume' basis. Accordingly, if the amount of bids submitted up to the cut-off price / yield in a particular tenor is more than the amount required by SBP; then SBP at its discretion, can accept an amount lower than the total amount offered at the cut-off.
29 January 2008	DMMD Circular No. 01	To streamline the data reporting system, SBP provided an updated version of Money Market Computerized Reporting Software to Banks/DFIs/PDs to enable them to provide data as per new format w.e.f. February 2008.
21 May 2008	DMMD Circular No. 02	In order to enhance FX reporting System, SBP replaced its earlier Microsoft FoxPro-based FX Computerized Reporting System (FXCRS) version with Microsoft Access 2003-based version. While most of the functionality of the upgraded FXCRS is same, some new features have been added to the new software.

A-4 Payment System

Date of Announcement	Circular No.	Policy Decision
15 January 2008	PSD Circular No. 01	**Guidelines for Retained / Disabled Cards on ATMs** ATMs have been providing important e-banking facility to banks' customers. ATMs may, however, retain cards on certain occasions due to technical reason or disable the card if a card holder makes three attempts with invalid PIN. In order to provide convenience to card holders, SBP, in consultation with the stakeholders, have developed guidelines regarding Retained Cards, Warm/Disabled cards and General Issues in this connection.
07 September 2007	PSD Circular No. 02	**Operational Guidelines on ATMs** In order to further improve the functioning of ATMs, provide secured environment for 24/7 banking on ATMs, enhance the service level and

		adopt the international best practices, SBP has developed operational guidelines in consultation with stakeholders. Commercial banks are required to comply with the following: 1. Install CCTV surveillance cameras so as to monitor / record all activity in the ATM vicinity instantly. 2. Proper lighting and locking arrangements should be made in ATM booths/cabins in order to ensure safety and privacy. 3. 24/7 helpline should be introduced to resolve the day-to-day operational issues at ATMs. The helpline should also be accessible through special phone terminals placed inside all ATM booths/cabins. Banks should ensure that these phones are in working order. The helpline numbers should also be widely publicized for the customers' awareness so that they may inquire or timely register their complaints as per their convenience. 4. Complaints / Suggestion Boxes should also be placed in ATM booths/cabins and adequate arrangement needs to be made for clearance thereof on daily basis. 5. Customers need to be educated to regularly reconcile their ATM transactions as reported in the statement of account or receipt and in case of any discrepancy in account balances the bank should be informed immediately. 6. ATMs and/or parts thereof should be replaced after reasonable useful life as per international standards and practices to ensure uninterrupted delivery of services. 7. A centralized monitoring unit should be put in place to monitor ATM operations 24/7 to address out-of-cash, out-of-order incidences so as to ensure uninterrupted service to customers. 8. Necessary measures should be taken to ensure that fake currency notes/un-acceptable notes are not disbursed through ATMs. 9. Comprehensive SLA should be signed with vendors to ensure proper

		maintenance of ATMs and its network. These guidelines will come into effect from December 01, 2007 and failure to comply with the above guidelines may attract penal action under the Payment Systems and Electronic Fund Transfer Act 2007.
23 August 2007	PSD Circular No. 01	**Settlement of Intra & Inter-Switch ATM Transactions by Karachi Office SBP BSC (Bank)** In order to streamline the ATM operations in Pakistan, State Bank of Pakistan (SBP) has decided to transfer the settlement of inter-bank ATM transactions from MCB Bank Limited and ABN Amro Bank to SBP. The settlement is to be made in banks' current accounts maintained at Karachi Office SBP BSC (Bank). This will be effective from October 01, 2007. The switches and their respective member banks are required to comply with the following guidelines: 1) 1LINK and MNet shall prepare bank-wise statements of all ATM transactions executed through respective switches between 00:00:00 to 23:59:59 (hh:mm:ss). 2) Both switches shall submit the net position of receivables and payables (inter-bank, intra-switch) to Karachi Office SBP BSC (Bank) on or before 12:30 pm in the format already agreed to debit/credit the concerned banks' current accounts. The net position report must be signed by authorized persons of the switches. 3) For settlement of inter-bank, inter-switch ATM transactions, MCB Bank Limited, through the authorized persons, shall submit to Karachi Office SBP BSC (Bank) on or before 12:30 pm one combined net position of receivables and payables in the format already agreed to debit/credit the concerned banks' current accounts maintained at Karachi Office SBP BSC (Bank). 4) Switches shall also report the same net positions to the respective member banks so that their treasury departments can ensure timely action

		to cover net shortfall or manage surplus in their accounts with Karachi Office SBP BSC (Bank). 5) Switches to submit separate report for any subsequent adjustments in previous statements along with the net position of the day as per agreed format. 6) Karachi Office SBP BSC (Bank) will only debit / credit the current accounts of banks on the basis of net off positions provided by the Switches and will inform the concerned banks & Switches accordingly. 7) Switches shall maintain complete details (i.e. date wise, bank wise) of clearing and adjustments for inspection purpose. 8) Switches shall immediately update the Karachi Office SBP BSC (Bank) in case of any change in the profile of their authorized signatories. 9) All clearing related activities other than settlement shall continue to be performed by the respective switches on behalf of their member banks as per agreed procedures.