

# **B-1 Central Board Decisions and Deliberations during 2008-09**

The key matters where decisions were taken by the members of the Central Board of Directors are given as under:

## **Corporate Governance**

1. Appointment of Dr. Waqar Masood Khan, Finance Secretary, as member of the Central Board of directors of State Bank of Pakistan.
2. Post retirement facilities to the Governor.
3. Performance Report for January 2006 – December 2008.
4. Appointment of Syed Salim Raza as Governor, State Bank of Pakistan.
5. Salary and Perquisites of the Governor.
6. Appointment of Mr. Salman Siddique, Finance Secretary, as member of the Central Board of directors of State Bank of Pakistan.
7. Meeting Fee of Directors of the Central Board.
8. Nomination to the Committee of the Central Board on Audit.
9. Directorship of Sardar Mohammad Ali Jomezai.
10. Delegation of Powers to Governor to decide individual hardship medical cases.
11. SBP Act, 1956 and draft of new SBP Act.
12. Appointment of Mr. Muhammad Kamran Shehzad as Deputy Governor.
13. Appointment of Mr. Mansur-ur-Rehman Khan as Banking Ombudsman/ Reallocation of responsibilities of Governors.
14. Terms and Conditions of Appointment of Mr. Muhammad Kamran Shehzad as Deputy Governor.
15. Consolidated list of Perquisites, Facilities and Post Retirement Benefits of the Deputy Governors.
16. Expansion of the Committee of the Central Board on Monetary and Credit Policies.
17. Appointment of Mirza Qamar Beg as Director on the Central Board of SBP and his nomination of the Committee of the Board on Building Projects.

## **Monetary policy & Research**

1. Monetary Policy Statement (July – December 2008).
2. Review of Economy - Annual Report of SBP 2007-08.
3. Financial Stability Review (2007).
4. The State of Pakistan's Economy – First Quarterly Report (July-September, 2008).
5. Monetary Policy Statement (January – March, 2009).
6. The State of Pakistan's Economy – 2nd Quarterly Report (October – December, 2008).
7. The State of Pakistan's Economy – 3rd Quarterly Report (January – March, 2009).
8. Monetary Policy Statement (April – June, 2009).

## **Banking**

1. Quarterly Performance Review of the Banking System for the Quarter Ended March 31, 2008.
2. Quarterly Performance Review of Banking System for quarter ended June 30, 2008.
3. Liquidity Support by SBP to Small Banks under Federal Government Credit Guarantee Scheme, 2008.
4. Performance Review of Banking System for quarter ended September 30, 2008.
5. Future Banking Strategy and other reform measures.
6. Draft Banking Act.

7. Quarterly Performance Review (QPR) of the Banking System for Quarter ended December, 2008.
8. Quarterly Performance Review of the Banking System for quarter ended March, 2009.
9. Re-composition of membership of Private Sector Credit Advisory Council (PSCAC).

### **Financial Markets and Reserve Management**

1. Briefing on Reserve Management and liquidation of foreign exchange Portfolio under the management of external fund managers.

### **Corporate Services**

1. Revenue Expenditure Budget and Capital Expenditure Budget of SBP and its Subsidiaries for the FY 2008-09.
2. Revision in State Bank of Pakistan Expenditure Regulations.
3. Approval of expenditure to procure services for special audit of HSBC, Hong Kong (Custodian).
4. Annual Financial Statements for the year ended June 30, 2008.
5. Debit Balance of Government of Balochistan (November, 2008).
6. Profit & Loss and Review of Expenditure Budget for quarter ended September 30, 2008 and Estimates for the Period October to June 2009.
7. Engagement of Mr. Makhdoom Ali Khan, Advocate to defend the writ petition.
8. Encashment of Leave for Deceased Employees.
9. Revision in Overtime Allowance.
10. Return on Employee Contributory Provident Fund & Gratuity Fund.
11. Restoration of Family Pension.
12. Renewal of Contract of Ms. Sara Bakhtiar, General Counsel.
13. Maintenance Contract for Products under 4th Addendum of Automation Project through M/S. Hyundai Information Technology.
14. Maintenance Contract for UPS Systems.
15. Request for N.O.C by Supreme Court of Pakistan for rehabilitation work in SBP building situated at Lahore.
16. Recruitment of OG-2 in the Bank.
17. Amendments/clarifications in existing Career Development Policy.
18. Profit & Loss account and Review of Revenue & Capital Expenditure Budget for the Period ended March 31, 2008 along with estimates for the period April to June, 2009.
19. Submission of audited accounts of I. I. Chundrigar Road Beautification Project.
20. Optically Variable Ink (OVI), Security Feature on New Design Bank note of Rs 500.
21. Appointment of Auditors and Fixation of Audit Fee for FY 2008-09 & 2009-10.
22. Pakistan Railways (PR) Overdraft with SBP.
23. Debit Balance of Government of Baluchistan (March, 2009).
24. Restoration of Rest & Recreation Allowance.
25. Payment of Allowance to Officers deputed at Karachi and Lahore Airports.
26. 100% reimbursement of Medical expenses incurred by Ms Rizwana Riffat from AKUH and amendment in Policy.
27. Inflationary adjustment of 20% increase in the Monetized Salary of Mr. Yaseen Anwar, Deputy Governor.
28. Profit & Loss account and Review of Revenue & Capital Expenditure Budget for the Period ended March 31, 2009 along with estimates for the period April to June, 2009.
29. Engagement of Auditors for Review of Financial Statements.
30. Amendment to ECF Trust Deed and EGF and ECPF Regulations – 2007.
31. Ratification of on account payment of the Federal Government (April, 2009).
32. Promotion of Director ERD.
33. Career Development Policy.

34. Extension of Rest & Recreation Facility to Clerical/Non Clerical employees.
35. Payment of Actuarial Value of Pension/Gratuity for contractual service.
36. Financial Approval for Procurement of Consultation Services for in house training program.

## **B-2 Business Continuation Management**

This year a marked dynamism in the area of Business Continuity Management (BCM) has been witnessed. Cognizant of the central position of BCM in the wake of evolving security challenges central banking staff has more proactively participated in all related exercises and events. This vigour vouches for continuity of the critical and time sensitive operations of Central Bank during a disaster. Since effective Business Continuity Management concentrates on the impact, as opposed to the source of the disruption, thus an overriding focus has been required to enhance resilience capabilities, enabling financial industry participation and supervision of Central Bank to manage broad range of disruptions. Possibility of natural disasters, acts of terrorism, and other severe operational disruptions/threats require State Bank of Pakistan (SBP) to focus on the Business Continuity Planning (BCP). Effective Business Continuity Management involves business impact analysis, recovery strategies and business continuity plans as well as testing & rehearsal, training and awareness programs. To further improve the Business Continuity Program of SBP, following significant initiatives have been taken in the field of Business Continuity during the last year.

### **Establishment of I.T Disaster Recovery Site**

The establishment of Disaster Recovery Setup had been identified. The core objective of the task is to provide continuity of its critical information technology services in case of a local or site disaster at its Primary / backup Data Centers in Karachi. In pursuance of this core objective, establishment of an IT Disaster Recovery Site is in progress and technology equipment have been procured, installed, configured and implemented on an interim basis that will finally be transferred to DR Data Center that is in process. Network communication has also established and ISTD has developed a comprehensive plan for IT Service Continuity.

### **BCP Crisis Centre**

In light of the importance of testing and exercising BCP, a dedicated BCP Crisis Centre was established at SBP Backup Site, to be used by critical departments to carry out their tests and rehearsals. To allow smooth conduct of exercises, fully connected and networked computers with required office machines have been made available. The lockers for each critical department have also been provided inside the BCP Crisis Centre for placing their important manuals, data and required stationery items.

### **Establishment of BCP Backup Site**

In order to ensure optimal and reliable performance of critical functions of SBP during disaster situation, another BCP Backup site has been established at a more safe and accessible site. This would help to avoid financial, systemic and reputational risks associated with the functions of State Bank. To make it operative the physical infrastructural work has been completed during the last year while installation of IT related equipments, etc. would be undertaken during the current year.

### **Updation of BCP Books**

BCP Books are maintained as a live document and various changes are therefore, incorporated in the BCP document on immediate basis as and when necessary, based on the feedback received from critical departments of SBP and SBP-BSC field offices. Therefore, twenty five updates were issued during the year.

### **BCP Committee and Emergency Support Group Meetings**

BCP committee comprises senior management drawn from the critical areas of SBP, who coordinate all aspects of BCP. The committee is responsible for the oversight, initiation, planning, approval, testing & audit of the BCP. In this regard, four BCP committee meetings were held during the year to oversee the BCP activities and review the results of quality assurance activities.

The Emergency Support Group consists of Heads of the Critical Support Services Departments. The Group is responsible for all the activities and tasks that support the recovery and continuity of the critical processes and functions in the event of a disaster at any SBP location. Emergency Support Group meetings were also conducted at the BCP Backup site to discuss and review the preparedness.

### **Testing and Rehearsal**

Rigorous testing & exercising the Business Continuity Plan enhance readiness of employees to cope with a disaster. Therefore, guidelines on testing & rehearsal were issued. To streamline the testing procedure at SBP and to facilitate the departments to conduct their tests and rehearsals smoothly, an annual test and rehearsal plan was consolidated and monitored with surprise element to check the readiness of critical departments and field offices of SBP and to ensure the continued effectiveness of the Business Continuity Plan in an ever-changing environment. In this regard, 32 mock exercises and 17 rehearsals were conducted by departments and SBP field offices along with table top testing. In addition to that evacuation drills were held at field offices and SBP main building.

## **B-3 Risk Based Audit Approach**

The Internal Audit & Compliance Department (IA&CD) at State Bank of Pakistan conducts financial, operation and information systems audit of SBP operations. IA&CD performs independent checks for compliance with policies, guidelines, applicable laws & regulations, evaluates the reliability of financial records and the security of information system in SBP. In addition to recommending improvements in internal efficiencies, IA&CD also works with other departments to review controls in new systems and business processes.

The objectives of IA&CD include among others, advising and recommending senior management improvements in internal control and risk management systems. IA&CD reviews the effectiveness of internal controls employed by various departments to reduce non-compliance and provide independent appraisal on the activities of SBP aiming to add value, improve operational efficiency, risk management and internal control systems. All this contributes towards minimizing all types of risks and generally contributes towards greater efficiency.

The Risk based internal audit approach is followed in accordance with the Internal Audit Charter. Separate divisions for Financial/Operational Audit and IT Audit are carrying out duties under clearly defined roles and responsibilities. An Audit Committee of the Board is also overseeing Internal Audit functions. Recently IA&CD has taken the following initiatives:

- A risk scoring model was developed in line with the best practices. The annual audit plan of the Department for year 2009-10 was upgraded based on the risk scoring model.
- To further comply with IIA Standards, a quality assessment review unit has been established in the department. It ensures that the Internal Audit Reports are in accordance with IIA standards.

## **B-4** General ‘Counsel’s’ Office

### **Restructuring of the Division and upgrading its functions**

The Legal Services Division was restructured in 2006 to a full-fledged department as the General ‘Counsel’s’ Office (GCO) with the appointment of a Special Counsel who oversees its three divisions and support office. Recently, a new litigation division has been added to focus on various litigation cases of the Bank.

A major cultural change has been successfully initiated to promote the concept of preventive law. Much closer interaction with the client departments has led to a better understanding of operational needs and bank wide targets. This has, in turn, fostered comfort of the client departments to discuss anticipated problems with a view to prevention. The incidence of consulting the GCO before undertaking a project or action has steadily increased as compared to the earlier practice of only seeking legal advice after a problem had arisen.

Improvements have been made in the processing of employee house building loans, administrative cases forwarded by SBP BSC, and other cases where legal opinion is required. The processing time is, in most cases, reduced to less than a week. Cases in which extensive research is required may, however, take longer.

There is greater participation and support in litigation matters as the Legal Professionals coordinate with outside counsel and attend court with the concerned officers, in material cases of SBP and its Subsidiaries.

The first legal cases management system of SBP was initiated in 2007. The system has now been implemented and will also assist in keeping track of litigation cases as well as keep a record of all the legal opinions in the software. Previously, such records were maintained manually.

### **Prevent and Minimize Litigation**

The GCO has started collecting and analyzing the status of litigation cases on a frequent basis, including reasons for any adverse orders. This helps the department to review its performance on a regular basis and seek to eliminate the causes of adverse orders, as much as possible.

The practice of preventive law is believed to be a major contributory factor to the reduction in litigation.

### **Drafting and Amendment of Legislation**

The GCO is deeply involved in the study, discussion, drafting/re-drafting and amendment of laws and in various proposed laws which include:

- *The State Bank of Pakistan ACT, 1956.*
- Draft Banking Act.
- Amendments to the Banking Companies Ordinance, 1962.
- Deposit Protection Act.
- Proposed Consumer Protection Law.
- Proposed Financial Crimes Law.
- Draft Securities Act.
- Draft Financial Services Commission Act.
- Demutualization Act.

- Anti-Money Laundering Ordinance, 2007.

The major concluded legislation work was on the Payment Systems and Electronic Fund Transfer Act which was a new law approved and enacted in 2007. This year the proposed new SBP Act was finalized and forwarded to the Ministry of Finance. Other laws and amendments are in various stages of the process.

Numerous contracts including the major payment systems and technical contracts were drafted/redrafted and issues amicably resolved through negotiation and drafting of correspondence by the GCO.

The GCO has actively participated in the process of amending the Anti Money Laundering Ordinance, 2007, in consultation with the Ministry of Law.

Rules and Regulations for the Financial Monitoring Unit were drafted and vetted under the Anti-Money Laundering Ordinance, 2007.

Recent coordination on the drafting of Micro Finance Credit Guarantee Facility sponsored by the Department for International Development, UK will assist SBP in its efforts to promote microfinance through Micro Finance Banks.

The General 'Counsel's' Office, being a support service department generally supports the initiatives and functions of other departments from the legal perspective and as such endeavors to contribute meaningfully to almost all initiatives and projects of the SBP.