



STATE BANK OF PAKISTAN
FINANCE DEPARTMENT
I.I. Chundrigar Road
KARACHI

FD Circular No. 03/2015

August 26, 2015

The Presidents/Chief Executives
All Banks / Microfinance Banks

Dear Sir/Madam,

SBP Currency Management Strategy

As you are aware that State Bank of Pakistan has recently announced salient features of its Currency Management Strategy in the Currency Conference held at Lahore in February 2015. Subsequently, the strategy was discussed in the meetings held with PBA and its sub-committee constituted by PBA for this purpose. The key features of the strategy are given as under:

- Automation of cash management function in the banking industry to ensure availability of machine authenticated good quality banknotes to general public
- Rationalization of SBP BSC currency management operations and increasing commercial banks' role and participation in currency management
- Improved supervision and regulation of commercial banks and cash processing centers/houses for assuring good quality bank notes in circulation and combating counterfeiting
- Introduction of modern, reliable and easily recognizable security features in banknotes

The above objectives will be achieved in a phased manner in coordination with all key stakeholders including commercial banks. To this effect, the SBP BSC has already initiated the process for procuring high speed banknotes sorting & authentication machines as well as medium sized desktop banknotes sorters. For effective implementation of the strategy, commercial banks will also have to streamline their prevailing currency management processes and automate the same in line with international best practices.

For this purpose, detailed instructions for standardizing Cash Management practices at commercial banks have been developed and are attached as **Annexure – A**. The instructions shall be effective for implementation by banks as per the timelines given in the instructions. These instructions are aimed at i) ensuring issuance/disbursement of machine authenticated genuine and fit banknotes by banks through their branches/ATMs, ii) promoting interbank cash exchange/trade, iii) acceptance of fit/re-issuable banknotes by SBP-BSC only as a last resort against a service charge, iv) eliminating redundancies in the existing cash operations of banks and promoting clean notes culture in the economy.

To ensure smooth transition of the cash management functions from manual to automated environment as per the prescribed timelines, the banks shall submit quarterly progress report to this department. The first such report shall be due for submission by 15th October 2015.

Please acknowledge receipt.

Encl: As above

Yours faithfully,

(Saleemullah)

Director

SBP Currency Management Strategy – Implementation Instructions for banks/Timelines
(Issued vide FD Circular No. 03/2015 dated August 26, 2015)

A. Exchange of Notes at banks' Counters

- i. Effective 2nd January 2017, the banks shall only disburse machine authenticated and sorted cash to their clients/general public from their cash payment counters. By that time, the existing arrangements for manual sorting and verification of cash shall continue.
- ii. The banks shall ensure that their cash payment counters have adequate machine authenticated /sorted cash to meet their daily payment needs.
- iii. All the cash received at banks' counters shall be processed and sorted before disbursing the same to the clients/general public. It shall be ensured that the cash received should not be mixed with the sorted and authenticated cash held for payments.
- iv. Cash received at cash receipt counters at the banks' branches shall be authenticated and sorted through cash sorting machines either at the branch premises or from the cash feeding branches/sorting cells to ensure that only the machine authenticated cash is issued to public.

B. Automated Cash Processing Centers (CPCs)

- i. By 2nd January 2017, the banks shall establish their specialized 'Cash Processing Centers (CPC)' or make necessary cash authentication and processing arrangements at their all cash feeding branches. Alternately, the banks can also make these arrangements with other banks/ cash processing centers of other banks to get their cash processed.
- ii. The banks shall share with the Currency Management Department, SBP BSC (Bank), Head Office, Karachi with copy to Finance Department, SBP the name and location of its cash feeding branches/CPCs, the cash processing facilities available in CPCs including machines, manpower, packaging, CCTV cameras etc and the name and location of branches and ATMs attached with the CPC latest by 2nd December 2016 i.e. one month before the effectiveness of these instructions. Similarly, the banks making arrangements with other banks for processing their cash shall share the details of the same with the Currency Management Department, SBP BSC (Bank), Head Office, Karachi with copy to Finance Department, SBP.
- iii. The CPCs or cash feeding branches shall have following key specifications/facilities :
 - a. CPC shall have separate clean and secure vault space with proper safe keeping arrangements of the banknotes;
 - b. The vault should have a required insurance cover in line with value of cash held by it or its holding capacity whichever is higher;
 - c. The entire area of CPC shall be monitored through high resolution CCTV cameras capturing authentication and sorting activities from all dimensions. The video recording shall be preserved for at least three months for retrieval. However, in case of any dispute, the recording shall be preserved till the dispute is finally settled;
 - d. The CPCs or the cash feeding branches shall have state of the art banknote processing machines for counting, sorting, detecting counterfeits, paper banding, bundles banding and shrink wrapping arrangements. The broad specifications and features of the cash processing machines to be installed by banks in the CPCs/cash feeding branches are given as under :
 - Currency Notes Counting

- Authentication through (i) Ultra-Violet (UV), (ii) Infra-Red (IR), (iii) Magnetism and (iv) Thickness Detection
- Fitness sorting into (i) Fit for Re-Issue/circulation (ii) ATM fit (iii) Unfit/soiled (iv) Rejected notes
- Orientation sorting - Face Orientation shall be required.
- Graffiti: sorting of notes having graffiti

The instructions issued by SBP on 'Machine Fitness Sorting Parameters' vide FD Circular No.1/2014 dated 9th September 2014 shall serve as bench mark for sorting of the banknotes as baseline requirements. SBP may enhance these minimum standards in due course of time.

- e. The staff deployed at CPCs for sorting, supervision and security etc. (whether banks' own or third party contract basis) should be selected after necessary screening/police verification with periodical (annual or so) security clearance from relevant Law Enforcement Agencies.
 - f. Special uniform/ pocket-less dress shall be made mandatory for the notes sorting staff and their supervisors at the cash processing places.
 - g. The staff/ supervisors/guards entering CPC/cash sorting area shall be physically and machine checked at the time of each entry/exit by the security/bank guard.
 - h. The visitors' entry shall be regulated, recorded and escorted by the designate staff/supervisor of the CPC.
- iv. The sorted cash shall be packed into packets of 100 pieces and bundles of 10 packets each. The packets shall have paper band with the seal of the CPC/processing bank whereas the bundles shall be shrink-wrapped along with the bank's/CPC's seal containing time and date of processing and machine operator's code.
 - v. Likewise, the unfit/soiled and rejected cash shall also be packed/bundled separately and surrendered to the SBP BSC field office for further processing/destruction on periodical basis (daily, weekly, monthly) as per procedure and timelines pre-agreed with concerned field office of SBP BSC.
 - vi. The cash either sorted as fit/re-issuable or unfit/soiled should be placed separately in cash lockers/bins duly marked as 'fit' or 'unfit/soiled' notes.
 - vii. The notes detected as 'counterfeit' shall be sent to the concerned section of the respective SBP BSC office for impounding along with the name of branch from whose cash the counterfeit banknote was detected within 48 hours of their detection. Further, an internal enquiry shall be initiated and completed with the help of CCTV recording both at the cash collection branch and the CPC to detect any possible involvement of bank's/CPC's own staff in mixing the counterfeit with the genuine banknotes. A proper log of such counterfeit notes shall be made containing information of branch from whose cash the counterfeit was detected.
 - viii. The CPC shall also have specifically built/customized containers to store the currency notes as well as to transport the cash to different branches and locations. The specifications of such containers shall be issued separately.

C. ATMs Feeding

- i. The banks shall ensure that only machine authenticated and sorted cash is fed into their ATMs (processed as per procedures laid down under Part – B of these instructions). In no case, the cash received in the branch during days receipt shall be fed into the ATMs directly.
- ii. The CPCs or the cash feeding branches shall be responsible for feeding of ATMs in the area assigned to them by the bank(s).

- iii. The banks shall make arrangements for feeding ATMs through purpose built sealed cassettes with effect from 2nd January 2017 and onwards. Therefore, the manual feeding shall be phased out by cassette swap mechanism whereby:
 - a. Standardized purpose built cassettes shall only be used by banks for feeding ATMs.
 - b. The cassettes shall be sealed in the CPCs/cash feeding branches under the CCTV camera coverage.
 - c. Each cassette shall have a specified number and information of denomination wise detail of banknotes packed in the cassette, date and time of sorting and sealing along with name of supervisor.
 - d. The sealed cassettes shall be handed over to the cash feeding team/official(s)/armor guard companies after receipt of written acknowledgement for transporting the same to the ATM/ branch site.
 - e. The CPC shall preserve all necessary documentation /record to track the trail of sealing and feeding the cassettes in ATMs for at least one month. However, in case of any dispute, the record shall be preserved till the dispute is finally settled.
- iv. By the time the arrangements for the above cassettes based feeding of ATMs are made, the banks shall ensure that the ATM fit banknotes are packed and sealed in suitable bags under proper supervision in CCTV controlled environment. A copy of invoice should also be sent to branch concerned/ATM In-charge for record. During feeding of cash through bags, following measures shall be adopted effective 1st October 2015:
 - a. Each bag shall have a specified number and proper record of the bag number. Denomination wise detail of banknotes packed in the bag, date and time of sorting / sealing with name of supervisor shall also be maintained, preferably through a barcode.
 - b. The duly sealed bags shall be handed over to the cash feeding team/official(s)/armor guard companies after receipt of written acknowledgement for transporting the same to the ATM/ branch site. Separate bag shall be prepared for each ATM to be fed by the official/security company.
 - c. The CPC shall preserve all necessary documentation /record of trail of officials who prepared and sealed the bag along with the vehicle number for future tracking/verification. Similarly the particulars of the official(s) transporting and feeding the cash in ATMs and collecting the left over cash from ATMs shall be maintained.
 - d. All leftover cash, if any, taken back from the ATMs shall also be packed and sealed in CCTV controlled environment and transported back to the Cash Feeding branch/CPCs for processing.
- v. The SBP/SBP-BSC officials may pay surprise visits to the CPCs/cash feeding branches to assess the control environment and compliance with SBP's instructions in addition to the inspections by our Banking Inspection Department.
- vi. The banks having sorting arrangements with other bank's CPCs shall also share the detailed mechanism for getting the cash processed and fed to its branches and ATMs.

D. Interbank Trading of Cash

In order to facilitate interbank trading of cash and ensuring implementation of clean note policy, following mechanism for deposit/withdrawals by the banks from SBP in cities having SBP BSC field offices shall be effective from 2nd January 2017:

- i. The banks willing to place surplus cash with SBP BSC and the banks in need of cash from SBP BSC to meet their cash withdrawal demand shall lodge a request with the respective SBP BSC office by 5 p.m. each day electronically for placement/delivery of the cash on the next working day. The e-mail IDs and other electronic platform shall be communicated in due course of time by the Currency Management Department and respective field offices of SBP BSC.
- ii. The SBP BSC office shall compile all such requests and match the cash demand of banks with the surplus cash offered for placement with SBP BSC.
- iii. The banks in need of cash shall be advised to collect the cash from the banks having surplus cash the next working day and SBP BSC shall debit the bank's account receiving the cash with contra credit to the paying/disbursing bank's account on execution of the transaction. The procedure for communication of this shall also be issued separately by the Currency Management Department of SBP BSC.
- iv. The demand of cash which could not be met from the available surplus cash with the banks would be met by SBP BSC from its stock. Similarly the surplus cash which could not be absorbed in the inter-bank market shall be accepted by SBP-BSC and the bank(s) will be given credit for the same. The deposit with SBP BSC shall, however, involve charges as explained in the next section.
- v. The SBP BSC may, however, make adjustments in the denominations requested by the bank keeping in view the availability of various denominations of notes with the cash surplus banks, or as per its own stock.
- vi. The surplus banknotes to be offered to SBP for placement as well as exchange of cash between the banks should invariably be duly sorted and packed in bundles with bank's seal as prescribed above. The banks shall be penalized if any unfit note is found in cash delivered by them either to SBP or other banks.
- vii. The banks receiving the cash from the other bank or SBP through above mechanism shall open the bags/containers in a CCTV controlled environment and count the bundles/packets. The difference, if any, shall be resolved with the help of CCTV footages. For this purpose, the CCTV environment shall be comprised of high resolution camaras.

E. Discontinuation of Bonded Notes Facility /Guarantee Vault:

- i. The bonded notes facility for deposit of re-issuable notes with SBP BSC field offices shall cease to exist w.e.f. 2nd January 2017.
- ii. Similarly, the facility of deposit of re-issuable cash by the smaller banks with SBP BSC under the Day's Receipts shall no more exist.
- iii. The banks may, however, deposit their surplus re-issuable cash duly verified, sorted and packed in bundles with SBP BSC offices or NBP chest branch against a service charge equivalent to 0.12% of the total value deposited.
- iv. However, SBP BSC or NBP Chest branches shall not ordinarily accept the re-issuable banknotes below Rs. 100 denomination. Banks, however, shall not refuse acceptance of such denomination of banknotes using these instructions.
- v. The service charge collected by NBP chest shall be surrendered / deposited with SBP BSC within 48 hours of such collection.
- vi. The SBP BSC offices shall continue to accept duly sorted unfit/soiled notes from the banks as usual. The banks shall, however, be subject to penalty in case fit notes are found in the soiled notes.

The banks are, accordingly, advised to make necessary arrangements for ensuring effective implementation of above instructions. The non compliance of the instructions shall attract penalties, scales of which will be notified separately.

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