

DRAFT NEW SBP ACT

(1-1-2009)

WHEREAS it is necessary to modernize the scope of activities, functions and operations of the State Bank of Pakistan with a view to enlarge its capabilities as a modern, progressive, effective and autonomous central bank, accountable to the Parliament and to foster monetary and financial stability in the country and provide for the matters connected therewith or ancillary thereto ;

It is hereby enacted as follows:

CHAPTER I - Preliminary

1. Short Title, Extent and Commencement.

- (1) This Act may be cited as the State Bank of Pakistan Act, 2009
- (2) It extends to the whole of Pakistan
- (3) It shall come into force at once.

2. Definitions.

Unless the context requires otherwise, in this Act, the following terms shall have the meanings set forth below:

- (a) “approved foreign exchange” means currencies declared as such by any notification under Section 17.
- (b) “bank” means a company doing the business of banking in Pakistan and licensed or authorized under any applicable law.
- (c) “bank note” means notes made and issued by the Bank in accordance with Section 21 and includes currency notes of the Government of Pakistan issued by the Bank;
- (d) “Central Board” means the Central Board of Directors of the Bank;
- (e) “coin” means coin and currency notes, if any, issued by the Federal Government which are legal tender in Pakistan;
- (f) “financial institution” means a company, other than a bank, whose business involves deposit taking from the public and/ or is supervised or regulated by the Bank under any law for the time being in force
- (g) “Governor”, “Senior Deputy Governor” and “Deputy Governor” respectively mean the Governor, Senior Deputy Governor and Deputy Governor of the Bank
- (h) “loans and advances” includes finances provided on the basis of participation in profit and loss, markup in price, leasing, hire-purchase or otherwise;
- (i) “Monetary Policy Committee” means the Monetary Policy Committee established under section 44(2) of this Act
- (j) “the Bank” means the State Bank of Pakistan.

3. Application of law to other companies.

Such provisions of this Act shall, with such modifications as the Bank may determine, apply to entities which are not banks or financial institutions but are regulated or supervised by the Bank under any law, as notified by the Bank from time to time.

CHAPTER II – Constitutional Provisions

4. Purpose and Nature.

- (1). This Act governs the State Bank of Pakistan or Bank Daulat-e-Pakistan, established by the State Bank of Pakistan Act 1956, which is the Central Bank of Pakistan.
- (2). Subject to this Act, the Bank is a body corporate, having administrative, financial and managerial

autonomy.

- (3) The Bank shall be entrusted with all the powers necessary to achieve its objectives and to implement its functions, as set out in this Act.

5. Legal Capacity.

The Bank has perpetual succession, a common seal, and full legal competence. The Bank shall have in particular the capacity to:

- (a) enter into contracts;
- (b) institute legal proceedings and be subject to such proceedings; and
- (c) acquire, administer, hold and dispose of movable and immovable property.

6. Location.

- (1) The head office of the Bank shall be situated in Karachi.
- (2) The Bank may establish branches, offices, and agencies in Pakistan or in such countries as it may deem necessary.

7. Capital.

- (1) The capital of the Bank shall be [xxx] Rupees. It shall be fully subscribed, paid-up, and held exclusively by the Federal Government. It shall not be transferable or subject to encumbrance.
- (2) The capital may be increased by a resolution of the Central Board subject to the approval of the Federal Government. No reduction of the capital shall be permitted at any time.
- (3) The nominal value, issue price, the manner in which the new shares may be issued and allotted and their assignment to the register of shareholders shall, be determined by the Central Board.

8. Establishment and Maintenance of Subsidiary or Trust.

Notwithstanding anything to the contrary contained in this Act or in any other law for the time being in force, the Bank may establish and maintain a subsidiary or a trust for the following purposes, namely:-

- (a) for catering to training needs of the Bank employees, financial sector and other agencies, organizations or institutions related to banking and finance sectors;
- (b) for handling the function of receipt, supply and exchange of Bank notes and coins which are legal tender;
- (c) for issue, supply, sale and purchase of prize bonds, holding draws thereof and other National Savings instruments;
- (d) for the welfare of staff and
- (e) generally for carrying out any other business or discharging any functions incidental to, or connected with, the affairs of the Bank.

9. Autonomy.

- (1) In the pursuit of its objectives and the performance of its functions, the Bank shall be autonomous and accountable as provided for in this Act
- (2) No Governmental or quasi Governmental body or agency shall issue any directive, directly or indirectly, to any banking company or any other financial institution or entity regulated by the Bank which is inconsistent with the policies, regulations and directives issued by the Bank pursuant to or in exercise of its powers under this Act or any other law in force.
- (3) The Bank, the members of the decision-making bodies, or the staff, shall not take instructions from any other person or entity, including government or quasi government entities. The autonomy of the Bank shall be respected at all times and no person or entity shall seek to influence the members of the decision-making bodies or the staff of the Bank in the performance of their functions or to interfere in the activities of the Bank.

CHAPTER III – Objectives and Functions

10. Objectives.

- (1) The primary objective of the Bank shall be to achieve and to maintain domestic price stability.
- (2) In addition, and subject to the primary objective of the Bank, the Bank shall foster and maintain a stable financial system through a proper and effective regulatory and supervisory regime
- (3) Without prejudice to attainment of these two objectives, the Bank shall support the general economic policies of the Federal Government of Pakistan.

11. Functions.

- (1) The Bank shall carry out its functions as set forth in this Act and any other law for the time being in force.
- (2) The main functions to be conducted by the Bank in pursuit of its objectives and as further described in this Act, shall be to:
 - (a) formulate and implement monetary policy;
 - (b) formulate and implement foreign exchange policy.
 - (c) hold and manage the international reserves of Pakistan;
 - (d) issue and manage the currency of Pakistan;
 - (e) promote a safe, sound and efficient payment system;
 - (f) regulate, license and supervise banks and financial institutions and formulate banking and financial sector policies as further specified in this Act or any other law;
 - (g) act as banker, adviser and agent to the Federal and Provincial Governments and to any other public bodies and organizations of Pakistan and , if deemed necessary for the attainment of its objectives, may extend long term or short term loans and advances to them ;
 - (h) act as banker for banks and financial institutions
 - (i) act as lender of last resort for banks and financial institutions
 - (j) keep balances with banks in countries whose currency has been declared as approved foreign exchange;
 - (k) cooperate with and participate in international councils and organizations concerning matters that are within its fields of competence;
 - (l) establish funds for the purposes of this Act or for any specified purposes as the Federal Government may notify in this behalf; and the purposes of any such fund, its management and any contributions to be made and the rules of the operations of each such fund shall be such as the Central Board may from time to time, determine;
 - (m) collect and produce statistics; and
 - (n) generally, the doing of all such matters and things as may be necessary, incidental to or consequential upon the exercise of its powers or the discharge of its duties, functions or objectives under this Act.

Provided that except for the functions in (a), (b), (c), (e), (f), (i), (j), (k), (l), and (m) above, the Bank may delegate any of its functions to subsidiary(ies) of the Bank.

CHAPTER IV – Monetary and Other Operations

12. Opening of Accounts.

- (1) In order to conduct its operations and financial activities, the Bank may open and maintain cash and securities accounts on its books for:
 - (a) The Federal and Provincial Governments
 - (b) banks and other financial institutions, and public entities;

- (c) foreign banks, central banks; international financial institutions and, where appropriate, foreign governments, international organizations and donor organizations.
- (d) Any other entities as the Bank may notify from time to time.
- (2) Without prejudice to the previous subsection, the Bank shall not open accounts on its books for natural persons or enterprises.
- (3) The Bank may prescribe the conditions for opening accounts on its books.
- (4) The Bank may open and maintain cash and security accounts on the books of:
 - (a) banks and other financial institutions;
 - (b) central banks, foreign banks, depositories and international organizations.

13. Custodial Facilities.

- (1) The Bank may provide, upon payment of reasonable fees, custodial facilities to banks and financial institutions for banknotes and coins, denominated in currencies that it designates, and for securities.
- (2) The Bank may prescribe the conditions for providing custodial facilities.

14. Open Market and Credit Operations.

- (1) In order to achieve the objectives of the Bank and to carry out its functions, the Bank may:
 - (a) operate in the financial markets by buying and selling outright (spot or forward) or under repurchase agreement or such other means as may be approved by the Central Board, and by lending or borrowing claims and marketable instruments, as well as precious metals; and
 - (b) conduct credit operations with banks operating in Pakistan, with lending based on adequate collateral.
- (2) The Monetary Policy Committee shall determine the types of instruments and activities and other operational methods of monetary control including Sharia-based instruments to be used for open market and credit operations; and it shall announce the conditions under which the Bank stands ready to enter into such transactions.

15. Minimum Reserves.

- (1) The Bank may require banks or financial institutions to hold minimum reserves on deposit accounts with the Bank in pursuance of its monetary policy objectives.
- (2) The Bank may require the banks and financial institutions to hold special reserves on deposit accounts with the Bank in pursuance of its monetary policy or risk management of banking or financial sector and may provide for any remuneration or return on such special reserves.
- (3) The Monetary Policy Committee shall, by regulation, establish the method for calculating the minimum reserves required to be maintained under the previous subsection.
- (4) In cases of non-compliance with the requirements issued under the previous subsection, the Bank shall be entitled to levy penalty interest or impose administrative penalties, within the meaning of Section 73, to comparable effect.

16. Lender of Last Resort

- (1) Where the circumstances so warrant, and a bank, which term includes a financial institution, approaches the Bank for financial facility to improve its liquidity and where the bank, in the opinion of the Bank, is solvent and can provide adequate collateral to support the financial facility, the Bank may provide the financial facility..
- (2) Where in the opinion of the Bank the aforesaid financial facility to a bank is necessary to preserve the stability of the financial system and where the bank is not fulfilling the requirements specified under sub-section (1) of this section, the Bank may provide such financial facility, or part thereof, on non-collateralized basis provided that a written guarantee of the Federal Government, on recommendation

of the Bank, is received in favour of the Bank, securing the repayment of the facility.

- (3) Where financial facility to a bank is considered under sub-section (2) of this section, the major shareholders of the bank shall demonstrate their own commitment by injecting fresh equity as determined by the Bank, or issue fresh shares to other interested investor(s) within a time span approved by the Bank or take other actions as may be required by the Bank.
- (4) In order to avail financial facility under this section the bank shall undertake to implement a program of remedial measures specified by the Bank.
- (5) The financial facility would be allowed for an initial period not exceeding 90 days extendable for a further period not exceeding 90 days on the basis of a program specifying the remedial measures that the bank concerned will be taking.
- (6) The financial facility under this section shall be provided on terms and conditions specified by the Bank through regulations. The regulations shall, at minimum, cover:
 - (a) Solvency and liquidity position of the bank, for which purpose the Bank may link the amount of facility with the capital of the bank,
 - (b) Forms of assets to be accepted as collateral,
 - (c) Margins for various types of collaterals,
 - (d) Nature of support and commitment required from the shareholders,
 - (e) Rate of mark-up to be charged from the bank,
 - (f) Any other element that the Bank may deem appropriate.
- (7) Before providing the aforesaid financial facility to a bank, the Bank may place other requirements on the bank, including but not limited to, the pledge of shares of major shareholders with the Bank or removal of the member(s) of the board of directors, chief executive officer or key executives of the bank and such requirements would be binding upon that bank, its major shareholders and members of the board of directors. To this end the board of directors of the bank or major shareholders of the bank shall enter into formal documentation with the Bank in this regard.
- (8) If the bank fails to implement the remedial measures to the satisfaction of the Bank or the measures have not achieved the results specified under the program, the Bank may take appropriate action(s) or measure(s) as it deems fit against the bank or its management or board of directors or shareholders under this Act or under any other law for the time being in force. The measures may include, but not be limited to, cancellation or annulment of all or part of shares of the bank, cancellation or annulment of entire or a portion of subordinated debt issued by the bank, arranging a merger or acquisition of the bank, liquidation or winding up of the bank or any other action as deemed appropriate by the Bank. In case of significant implementation of the remedial measures the Bank may modify its action(s) accordingly or may give further time for implementation of the remedial measures.

CHAPTER V – Foreign Exchange Matters and International Reserves

17. Foreign Exchange Regime and Exchange Arrangements.

- (1) The Federal Government, in consultation with the Bank, and without prejudice to the primary objective of the Bank to maintain domestic price stability, shall determine the foreign exchange regime of Pakistan.
- (2) The Bank, on the recommendation of the Monetary Policy Committee, shall define, adopt and implement the exchange rate policy of Pakistan and may enter into foreign exchange arrangements.
- (3) On the recommendation of the Central Board, the Federal Government may, by notification in the official Gazette, declare the currency of any country or any monetary unit of account to be approved foreign exchange for all or any of the purposes of this Act.

18. International Reserves Portfolio.

- 1) The bank may directly or indirectly purchase, hold, and sell currencies, financial and capital

instruments, including indices and derivatives, issued by governments, agencies, local authorities, corporate, and supranational in countries, wherever issued, whose currency has been declared as approved foreign exchange and the remaining effective maturity of which is determined to be of not more than [30] years at the time of purchase, ; Provided that the restrictions relating to maturity shall not apply to securities held by the State Bank on the date on which this Act comes into force or any securities that may be received as assets under the Pakistan (Monetary System and Reserve Bank) Order 1947. The permissibility of each of asset class shall be determined by the Central Board.

- 2) The Bank may appoint managers, custodians, consultants, and any other professional advisors for the effective management of Foreign Exchange Reserves of the country.
- 3) In case international reserves decline to levels inadequate to ensure smooth international transactions and are deemed, by the Investment Committee, a risk to the overall macroeconomic stability, the Bank shall communicate its policy recommendations together with possible consequences of the policy proposed, to the Federal Government.”
- 4) If the Bank does not receive a response from the Federal Government within a period of 15 calendar days, it will have the authority to take actions deemed necessary by it, to remedy the situation.

19. Foreign Exchange Regulations.

- (1) The Bank may buy from or sell to any person, bank or financial institution licensed to deal in foreign exchange whether in Pakistan or abroad, approved foreign exchange at such rate of exchange at such places and on such conditions as it may determined from time to time.
- (2) In case of non-compliance with the requirements issued under this subsection the Bank shall be entitled to charge remuneration, or impose administrative penalties within the meaning of Section 73.

CHAPTER VI– Currency and Legal Tender

20. Currency.

- (1) The currency of Pakistan shall be the Pak Rupee.
- (2) The Federal Government shall supply coins to the Bank on demand which shall be circulated only through the Bank.
- (3) The Federal Government shall take over from the Bank at such times and in such quantities as the Bank may determine, coins which are not required for purposes of circulation against payment.

21. Issuance of Currency and Legal Tender.

- (1) The Bank shall have the exclusive right to issue banknotes in Pak Rupee, which, to the extent that they have not been withdrawn from circulation, shall be legal tender in Pakistan.
- (2) The Bank shall, after consultation with the Federal Government, determine the face value, measures, weights, designs, security and other features of the banknotes and coins that are issued in Pakistan.
- (3) The Bank shall be responsible for maintaining an appropriate supply of banknotes in Pakistan.
- (4) The Bank may limit the amounts of banknotes and coins that must be accepted as a legal tender in payment for an obligation and restrict the denominations of such banknotes and coins in which payment may be made to specified amounts or a range of amounts.
- (5) The aggregate amount of circulating banknotes issued by the Bank shall be noted in the financial statements of the Bank as a liability. Such liability shall not include banknotes in the currency reserve inventory held by, or on behalf of, the Bank.

22. Offences and penalties relating to unauthorized issue of bills.

- (1) No person in Pakistan other than the Bank or as expressly authorized by this Act, the Federal Government, shall draw, accept, make or issue any bill of exchange, hundi, promissory note or engagement for the payment of money payable to bearer on demand, or borrow, owe or take up any sum or sums of money on the bills, hundis or notes payable to bearer on demand of any such persons, but such cheques or drafts, including hundi, payable to bearer on demand or otherwise may be drawn on a person's account with a banker, shroff or agent.
- (2) Notwithstanding anything contained in the Negotiable Instruments Act, 1881, no person in Pakistan other than the Bank, or as expressly authorized by this Act, the Federal Government shall make or issue any promissory note expressed to be payable to the bearer of the instrument.
- (3) Any person contravening the provision of this section shall be punishable upon conviction, with fine which may extend to double the amount of the bill, hundi, promissory note or engagement in respect whereof the offence is committed.
- (4) No prosecution under this section shall be instituted except on complaint made on behalf of the Bank.

23. Exchange of Currency.

- (1) Upon request, the Bank shall exchange, without charge or commission, banknotes and coins that are legal tender in Pakistan.
- (2) The Bank may decline to exchange banknotes or coins if their designs are illegible, misshapen or perforated, or if more than fifty percent of their surface area has been lost. Such banknote or coin shall be withdrawn and destroyed without indemnity to the owner, unless there is evidence satisfactory to the Bank that the missing portions have been totally destroyed, in which case the Bank may, in its sole and absolute discretion, grant compensation in whole or in part.
- (3) The Bank shall not be required to provide any compensation for banknotes or coins that are lost, stolen or destroyed and may confiscate without compensation any banknotes that have been altered in their external appearance, including in particular, banknotes that have been written on, drawn on, overprinted, stamped or perforated, or to which adhesive matter has been applied.

24. Unfit Currency.

Bank note which is torn, defaced or excessively soiled shall be withdrawn, destroyed, and replaced with banknotes or coins by the Bank.

25. Redemption of Currency.

- (1) The Bank may decide to redeem banknotes or coins by issuing, free of charge, other banknotes or coins in equivalent amounts. A decision to redeem banknotes or coins shall be notified by the Bank specifying the period during which the exchange shall take place and the locations and the time frame within which withdrawn banknotes or coins may be presented for redemption.
- (2) At the end of the exchange period, or at any other time specified by the Bank, redeemed banknotes and coins shall cease to be legal tender.
- (3) The Bank shall notify the public, by publication in the Official Gazette, of the banknotes and coins that are legal tender.

26. Currency Reserve Inventory and Issue Plan.

The Bank shall create and administer a currency reserve inventory, make issue plans, and ensure the availability of a regular supply of banknotes and coins, in order to meet the currency requirements of Pakistan.

27. Counterfeit Currency.

- (1) Any person that falsely makes, forges, counterfeits or alters any banknote or coin that is legal tender in Pakistan or abroad, or any check, security or payment card, whether denominated in the legal tender of Pakistan or in another currency; or possesses, transports or issues any such banknote, coin, check, security or payment card with the knowledge that it was falsely made, forged, counterfeited or altered or manufactured; or possesses or transports any plate, stone, paper, die or other object or substance with the knowledge that it was destined to be used in falsely making, forging, counterfeiting or altering any such banknote, coin, check, security or payment card, shall be liable to penalty under section 73.
- (2) Banknotes and coins presented to financial institutions denominated in legal tender in Pakistan or abroad, which are suspected of being forgeries, whether presented at registered banks and financial institutions or at other entities authorized to carry out exchange operations, must be withdrawn from circulation and forthwith sent to the authorities appointed for this purpose by regulations of the Bank and in compliance with any other legislative provision.
- (3) The Bank may issue regulations to implement the provisions of the subsections (1) and (2) of this Section.
- (4) The Bank shall seize all notes presented to it which are suspected of being counterfeited, forged or changed in value, and shall draw up a writ with the identification of the notes, their bearer, and the Bank's grounds for suspicion. The writ shall be forwarded to the competent law enforcement authorities for such investigation and further action as may be required.
- (5) The Bank may call upon the resources of any other authorities for assistance in carrying out the purposes of this Section and such authorities shall be duty bound to provide such assistance as and when called.

28. Reproductions of Currency.

- (1) Any reproduction of banknotes and coins, whether legal tender in Pakistan or abroad, and the creation of any objects that by their design imitate any such banknote or coin, shall require the prior written authorization of the Bank.
- (2) Notwithstanding the provisions of the subsection (1), the Bank may issue regulations authorizing the publication of reproductions of currency.
- (3) A person who breaches the provisions of this Section may be subjected to a fine as provided for in regulations issued by the Bank.

Provided that nothing in this Section shall affect the right, authority and powers of the Federal Government under the Pakistan Coinage Act, 1906 or Pakistan Currency Act, 1950 or any other law in force.

CHAPTER VII – The Payment System

29. Facilities.

- (1) The Bank may issue such rules, regulations, guidelines, circulars, bye-laws, standards and directions as it may consider appropriate for the smooth functioning of the payment system
- (2) The Bank may provide facilities, including intra-day credit, to payment, clearing and securities settlement systems, and their participants, to ensure the safety, soundness and efficiency of such systems.
- (3) The Bank is authorized to organize, participate in and operate the systems referred to in the previous subsection.

30. Licensing and Oversight.

- (1) The Bank shall have exclusive power and authority for the regulation, licensing, and oversight of payment, clearing and settlement systems for banks and financial institutions and shall have power to impose administrative penalties within the meaning of Section 73.
- (2) The Bank may by regulations within the meaning of Section 72,:

- (a) require the registration or licensing of any payment, clearing and settlement system or the operator of such system;
 - (b) require any payment, clearing and securities settlement system or the operator of such system to observe such conditions and requirements as may be established by the Bank; and
 - (c) regulate and oversee the issuance and standards of payment instruments.
- (3) The staff of the Bank may visit the offices/ operators of payment, clearing and securities settlement systems, and their participants, to examine such accounts, books, documents including electronic and other records, to obtain such information from them, and to take such other action as the Bank shall deem necessary or advisable.
- (4) Payment, clearing and securities settlement] systems, and their participants, shall furnish the Bank with such information as and when the Bank may require.
- (5) The Bank may disclose information and data obtained under the previous subsection in whole or in part in aggregate form, or in accordance with Section 86.

CHAPTER VIII – Supervision

31. Supervisory Functions.

- (1) The Bank shall have exclusive authority and power for the regulation, licensing, and supervision of banks including microfinance banks and other financial institutions as further specified in the Banking Companies Ordinance 1962, or any other law and shall have power to impose administrative penalties within the meaning of Section 73.
- (2) The staff of the Bank may visit the offices/branches of financial institutions to examine such accounts, books, documents including electronic and other records, to obtain such information from them, and to take such other action as the Bank shall deem necessary or advisable.
- (3) The banks and financial institutions shall furnish the Bank with such information concerning their operations and financial condition as the Bank may require.
- (4) The Bank may disclose information and data obtained under the previous subsection in whole or in part in accordance with law, including in aggregate form for classes of banks or financial institutions determined in accordance with the nature of their business, or in accordance with Section 82.

32. Power to require returns from other entities.

The Bank may require any entity with which it has any transaction under Section 11 to furnish returns referred to in under sub section (3) of Section 31, and if it does so require, the provisions of Section 31 shall apply, so far as may be, to such entity as if it were a bank.

CHAPTER IX – Credit Information System

33. Credit Information System.

- (1) The Bank may operate regulate, license, and supervise credit information systems to collect and disseminate credit information among banks and financial institutions and may issue regulations to effect its implementation.
- (2) The information collected and maintained in credit information systems referred to in the previous subsection shall only be used for the purpose of improving the quality of bank credit.

CHAPTER X – Statistics and Information

34. Collection of Statistics and Information.

The Bank, in pursuit of the objectives set forth in Section 10 and as further described in this Act, shall:

- (a) collect, compile, analyze, abstract and publish statistics and information relevant to the carrying out of its functions;
- (b) define, by regulations, the statistical information so required and the form in which such information is to be provided to the Bank, the natural and legal persons subject to reporting requirements, the applicable confidentiality regime and the administrative penalties, within the meaning of Section 77, subsection (2), that may be imposed on entities operating in breach of these statistical requirements;
- (c) collaborate with other regulators, governmental departments and agencies in the collection, compilation, and publication of statistics and other relevant information; and
- (d) coordinate with bilateral and multilateral agencies the adoption of international data dissemination standards with the aim of achieving consistency and efficiency in the organization of statistics and information.

35. Furnishing of Statistics and Information.

The persons that fall under scope of the statistical requirements as defined in the regulations mentioned in Section 34, clause (b), shall furnish the information as requested by the Bank.

36. Dissemination of Statistics and Information.

The Bank may disclose:

- (a) statistics and information subject to the regulations on the confidentiality regime as mentioned under Section 34, clause (b);
- (b) documentation on the methodology applied to its compilation; and
- (c) relevant statistical data and concepts that will allow external verification of the statistics produced by the Bank to be made.

37. Studies in Banking and Economics.

The Bank may contribute or donate funds to a body corporate in Pakistan for the study or promotion of, or research in, banking, economics and other subjects as may be determined by the Central Board.

CHAPTER XI – Relationship with Legislature, Government and State

38. Accountability to the Parliament.

The Governor, with due observance of Section 9, may, at the request of the Parliament or on his/her own initiative, periodically be heard by the Parliament or its committees, concerning monetary policy, financial system issues and the state of the economy.

39. Banker, Agent and Adviser for the Governments.

- (1) The Bank shall act as banker and as adviser to the Federal and Provincial Governments.
- (2) The Bank may, for and on behalf of the Federal Government, receive foreign borrowings, manage and administer such debts, and settle claims and financial liabilities of the State.
- (3) The Bank may, on such terms and conditions as it shall agree with the Government concerned, act as agent for the account of the Federal and Provincial Governments or for such other public agency as these Governments may determine.
- (4) The Bank may operate a registry for securities issued by the Federal and Provincial Governments.

40. Depository and Cashier for Governments.

- (1) The Bank may accept deposits in currency or any approved foreign exchange, from, or on behalf of, the Federal and Provincial Governments or from any other public agency. As depository, the Bank shall receive and disburse moneys and keep account thereof and provide other financial services related thereto.
- (2) The Bank shall pay to the limits of the deposited amounts against payment orders concerning such accounts.
- (3) The Bank may pay interest on such deposits and at such rates as may be determined by the Bank from time to time.

41. Coordination with the Federal Government

- (1) Subject to Section 9 , and its objectives and functions pursuant to Section 10 , subsections 1 and 2, the Bank shall:
 - (a) cooperate with the Federal Government and any other public agency; and
 - (b) hold regular meetings with the Ministry of Finance on monetary and fiscal policies and other matters of common interest.
- (2) The Bank and the Ministry of Finance shall keep one another adequately informed of all matters that affect the Bank and the Ministry jointly.
- (3) The Bank may render advice to the Federal Government on any matter which, in its opinion, is likely to affect the attainment of the objectives of the Bank.
- (4) The Bank shall, on request of the Federal Government, provide the Federal Government with information regarding the functions of the Bank; specific information relating to supervised entities may be provided subject to such strictures to preserve confidentiality as the Bank may deem appropriate.
- (5) The Bank shall, on request of the Federal Government, provide the Federal Government with pertinent data on the receipt by the Bank of funds from any source.
- (6) The Federal Government shall, on request of the Bank, provide the Bank with such information and documents as the Bank may request for the purpose of carrying out its functions.
- (7) The Bank shall be consulted by the Federal Government on any draft laws concerning matters that relate to the objectives of the Bank, or that otherwise are within its fields of competence, before such laws are submitted to the Parliament. The Federal Government shall submit the views of the Bank together with the draft law to the Parliament.

42. Prohibition on lending to the Government

- (1) The Bank shall not grant any direct or indirect credits to the Federal and Provincial Governments or to any other public agency or State-owned entity, with the exception of intra-day credits to secure the smooth functioning of the payment system. Such intra-day credits shall be fully repaid before the end of the same day.
- (2) The restrictions of the previous subsection shall not apply to publicly-owned banks and other financial institutions, which shall be given the same treatment as privately-owned banks and other financial institutions.
- (3) The Bank may purchase government securities provided that such purchases are only made in the secondary market.
- (4) Notwithstanding the above, the Bank may, if required to temporarily cover a deficit of the Federal Government's current yearly budget,
 - (a) make advances and loans to the Federal Government on overdraft or in such other forms as determined by the Central Board on the advice of Monetary Policy Committee.
 - (b) acquire by purchases on the secondary market treasury bills and other negotiable securities at market rates representing obligations of the Federal Government.

The Bank will make public any such assistance to the Government.

- (5) The total of such loans, advances and holdings of treasury bills and other Federal Government securities, whether or not acquired according to subsection 3 or subsection 4(b), excluding however any Federal Government securities held as part of the share capital of the Bank less any credit balances in the account of Federal Government with the Bank, shall, at no instance, exceed ten percent of the Federal Government's actual revenue in the previous year budget.
- (6) Treasury bills and other Federal Government securities held by the Bank against repurchase agreements entered into with it by licensed banks shall be excluded from the total holdings of Federal Government securities of the Bank where the repurchase is required to be effective within ninety-three days from the date of the agreement.
- (7) Any advance made under clause (a) of subsection (4) shall be repaid within ninety-three days from the end of the Federal Government's financial year to which it relates, and where any such advance remains unpaid after the due date, the power of the Bank to make further advances in any subsequent financial year shall not be exercised unless the amounts due in respect of outstanding advance have been repaid.
- (8) The Bank shall charge interest / markup / remuneration or return on advances granted under this Section at prevailing market rates.

Provided that nothing contained in this section shall apply to any lending, credit or advances existing at the commencement of this Act for a period of ---months from the commencement of this Act

43. Consensus Mechanism.

- (1) In the event of a difference of opinion between the Federal Government and the Bank, the Minister of Finance, on behalf of the Government, and the Governor, on behalf of the Bank, shall endeavor to reach agreement.
- (2) If the Minister of Finance and the Governor are unable to reach agreement, the Minister of Finance or the Governor may, in case he/she is of the opinion that agreement is necessary for the coordination of monetary and fiscal policies, and after consultation with the Bank or the Ministry of Finance, respectively, submit a recommendation regarding the matter at issue to the Prime Minister. A copy of such recommendation shall be sent to the Bank or the Ministry of Finance, respectively.
- (3) The Bank or the Ministry of Finance shall, if it has any objections to the recommendation referred to in subsection (2), submit such objections in writing to the Prime Minister, within three days of receiving the recommendation. A copy of the objections shall be sent to the Ministry of Finance or the Bank, respectively.
- (4) The Prime Minister shall thereupon, by directive, determine the policy to be adopted by the Bank.
- (5) The Prime Minister shall inform the Bank in writing of the policy so determined and acknowledge that the Federal Government accepts responsibility for the adoption of such policy.
- (6) The Bank shall thereupon give effect to such policy while the directive remains in operation.
- (7) The Prime Minister shall publish in the Official Gazette and cause to be laid before the Parliament, within 15 calendar days after he/she has informed the Bank of the policy so determined:
 - (a) the directive of the Prime Minister/ as referred to in subsection (4);
 - (b) the recommendation the Minister of Finance or the Governor submitted to the Prime Minister as referred to in subsection (2); and
 - (c) the objections the Bank or the Ministry of Finance submitted to the Prime Minister as referred to in subsection (3).

CHAPTER XII– Governance and Organization

Decision-making bodies

44. Central Board of Directors, Monetary Policy Committee and Governor.

- (1) The supreme governing body of the Bank shall be the Central Board of Directors, which shall be charged with the supervision of the administration and the operations of the Bank, and the formulation and the supervision of the implementation of those policies that do not fall under the purview of the Monetary Policy Committee.
- (2) There shall be a Monetary Policy Committee within the Bank, which shall define and adopt the monetary and exchange rate policies of the Bank, and shall have the powers conferred on it under this Act.
- (3) The Governor shall serve as the chief executive of the Bank in charge of the day-to-day operations of the Bank.
- (4) The Senior Deputy Governor and one or more Deputy Governors shall assist the Governor in conducting the day-to-day operations of the Bank as assigned by the Governor.

45. Composition of the Central Board of Directors.

The Central Board shall comprise the Governor, the Senior Deputy Governor, one Deputy Governor, and six non-executive members, at least one coming from each Province of Pakistan.

46. Powers and Functions of the Central Board of Directors.

The Central Board shall have the following powers and functions to:

- (a) with the exception of the powers entrusted to the Monetary Policy Committee, define and adopt the policies of the Bank regarding the execution of its functions, and to adopt, as appropriate, internal rules for their implementation;
- (b) oversee foreign exchange reserve management and approve investment and risk policy.
- (c) With the exception of the supervisory and regulatory functions, oversee the implementation of the policies and the execution of the functions of the Bank
- (d) adopt the regulations issued by the Bank;
- (e) determine the general policies and to adopt the by-laws and internal rules applicable to the administration and operations of the Bank;
- (f) determine the organizational structure of the Bank, including the establishment and location of branches, representative offices, and operations facilities;
- (g) approve the appointment of the Chief Internal Auditor, the Chief Legal Counsel / General Counsel, and officers above the rank of directors/ heads of departments on the recommendation of the Governor;
- (h) determine the number of staff, agents and other persons, necessary to fulfill the functions of the Bank and their general terms and conditions of employment, including allowances and other benefits;
- (i) approve the annual budget of the Bank;
- (j) determine the accounting policies of the Bank and approve the annual report and other formal reports and financial statements of the Bank;
- (k) appoint and determine remuneration of the external auditors of the Bank;
- (l) determine the categories of assets that shall be suitable for investment of the Bank's financial resources;
- (m) supervise the limits for lending to the Governments in accordance with Section 41;
- (n) determine the denominations and design of banknotes and, coins as well as matters relating to their issuance and handling;
- (o) establish one or more advisory bodies, determine their terms and conditions of appointment of their members, and determine the terms of reference of such bodies;
- (p) establish one or more committees consisting of members of the Board and/or other persons, and to define their responsibilities;

- (q) assess risks and formulate contingency plans for the ongoing operations and security of the Bank;
- (r) adopt the rules of procedure for the Central Board; and
- (s) such other powers and functions as explicitly granted by this Act.

Provided that the Governor may, in an emergency which in her/his opinion requires immediate action, take such measures as may be necessary in the circumstances and shall report such measures to the Central Board at its next meeting.

47. Powers and Functions of the Governor.

- (1) The Governor of the Bank shall be the chief executive officer and shall direct and control the entire affairs of the Bank on day-to-day basis.
- (2) The Governor shall propose and implement the monetary and exchange rate policy of the Bank in accordance with the decisions of the Monetary Policy Committee.
- (3) The Governor shall propose and implement the other policies of the Bank in accordance with the decisions of the Central Board.
- (4) The Governor shall be responsible to the Central Board for the execution of its decisions and for the direction and control of the administration and operations of the Bank.
- (5) Within the limitations of his/her powers, the Governor shall have the authority to take all actions required or deemed advisable for the administration or operations of the Bank, including without limitation the procurement of goods and services, entering into contractual commitments on behalf of the Bank, appointing the staff and agents of the Bank, and generally representing the Bank.
- (6) The Governor shall have the power to take enforcement measures, including instructing any supervised bank or financial institution, or any regulated payment, clearing and securities settlement system or any other entity regulated/supervised by the Bank, to take remedial actions; or by appointing a receiver for such entities; or by imposing administrative penalties, as provided by this Act, or by any other law or regulation.
- (7) The Governor may, within the rules adopted by the Central Board, delegate any of his or her powers or functions.
- (8) The Governor shall report, not less than four times each year, to the Central Board on the conduct of the Bank's operations and policies, on the soundness of the financial system, and on the state of the money, capital and foreign exchange markets, including all events and conditions that have or are expected to have a significant effect on the administration or operations of the Bank, on the conduct of its policies, on the financial system, or on the above-mentioned markets. The Governor shall also report to the Monetary Policy Committee on matters falling within the latter's competences..
- (9) In the matters not specifically required by this Act or by regulations to be done by the Central Board, the Governor shall have authority to conduct the business, control the functions and manage the affairs of the bank.

48. Appointment.

- (1) The members of the Central Board shall be appointed for terms of 5 years which terms shall be renewable for another term of 3 years.
- (2) The Governor shall be appointed by the Federal Government for a term of 5 years which shall be renewable for another term of 5 years or attainment of the age of 65 years, whichever is earlier.
- (3) The Senior Deputy Governor shall be appointed by the Federal Government upon the recommendation of the Governor for 3 years renewable for another term of 3 years or attainment of the age of 65 years, whichever is earlier .
- (4) The non-executive directors of the Central Board shall be appointed by the Federal Government on the recommendation of the Governor.
- (5) The Deputy Governors shall appointed by the Central Board on the recommendation of the Governor for a term of 3 years renewable for further term of 3 years.

- (6) Appointment procedures as referred to in the previous subsections shall be initiated and finalized within 60 calendar days before the term of the member of the Central Board concerned expires.

49. Remuneration and Compensation.

- (1) The remuneration for the members of the Central Board shall be such that qualified and expert officials can be appointed and retained
- (2) The remuneration of the Governor, Senior Deputy Governor and the Deputy Governors shall be stated in the instruments of their appointment.
- (3) The non-executive members of the Central Board shall receive compensation for attendance at each meeting of the Board and its committees, in amounts to be recommended by the Governor and approved by the Federal Government. The amount of this compensation shall be stated in the documents relating to their appointment.

Provided that the remuneration shall not be diminished during the terms of office for which a member has been appointed.

50. Eligibility.

- (1) Persons eligible to serve on the Central Board shall be of recognized integrity and shall hold at least a university degree from a recognized institution and well reputed for high level of integrity in his area of expertise which should be in fields related to the functions of the Bank.
- (2) Persons eligible to serve on the Central Board shall be citizens of Pakistan.
- (3) No person shall be eligible to serve on the Central Board if he/she:
 - (a) has been convicted of a criminal or financial offence including tax evasion; and
 - (b) has been a director of a bankrupt institution or debtor in a bankruptcy or insolvency proceeding or defaulter of any bank or financial institution;
 - (c) has, on the grounds of personal misconduct, been disqualified or suspended by a competent authority from practicing a profession or has been prohibited, for the reason of misconduct, from being a director or officer of another organization; or
 - (d) has engaged in serious misconduct in office.
 - (e) is office bearer of special interests such as chamber of commerce and industries or trade bodies
- (4) No person shall serve on the Central Board while he or she is a member of the Federal or Provincial Legislature, the Federal or Provincial Government, an official of a Government ministry, or a director, shareholder, official or employee of a financial institution, exchange company or a payment system operating through offices in Pakistan or he/she, his/her spouse or dependent parents or children are beneficial owner of an equity interest in a bank or financial institution.
- (5) For the purpose of the previous subsection, an officer or employee of a university or any organization or institution having operational independence from the Federal or Provincial Government shall not be deemed to be an official or employee of the Government or of a Government ministry.

51. Disqualification and Removal.

- (1) The Governor or Senior Deputy Governor shall be removed from office by the Federal Government, in case, he/she:
 - (a) becomes ineligible in terms of subsections (3) or (4) of section 50;
 - (b) is unable to perform the functions of such an office because of an infirmity of body or mind that has lasted for more than three months;
 - (c) has failed to perform his or her duties for a consecutive period of more than three months without approval of the Central Board;

- (2) The Senior Deputy Governor or a non-executive member shall be removed on the grounds referred to in subsection (1) of this Section by the Federal Government.
- (3) A Deputy Governor shall be removed on the grounds referred to in subsection (1) of this section by the Central Board.
- (4) A member of the Central Board removed from office shall have a right of appeal to the Supreme Court within 15 calendar days of the date of the decision.

52. Resignation.

- (1) The Governor, the Senior Deputy Governor, a Deputy Governor, may resign from office on giving not less than three months' notice in writing to their respective appointing authority.
- (2) The non-executive members of the Board may resign from office by giving not less than one month's notice in writing to the Federal Government.

53. Subsequent functions.

Former members of the Central Board shall not serve in a professional capacity in a bank or other financial institution in Pakistan for a period of one year immediately following their departure from the Bank.

54. Vacancy.

Any vacancy on the Central Board shall be filled within 60 calendar days by the appointment of a new member to serve the remaining term of the departed member.

Meetings and Proceedings of the Central Board of Directors

55. Meetings.

- (1) The meetings of the Central Board shall be chaired by the Governor or, in his/her absence, by the Senior Deputy Governor.
- (2) The Central Board shall meet as often as the business of the Bank may require but not less frequently than four times per calendar year.
- (3) Meetings of the Central Board shall be convened by the Governor and may also be convened at the written request of any two members.
- (4) Central Board meetings shall be convened by communicating the time, venue and agenda of the meeting to all members [at least seven working days before the date set for the meeting except in the event of an emergency, or by the mutual consent of all members when, in which case a meeting may be convened at shorter notice][as determined in the rules of procedure of the Board].
- (5) A quorum for the conduct of business at any meeting of the Central Board shall consist of at least four members, including [at least one non-executive member and] the Governor or, in his/her absence, the Senior Deputy Governor acting as chairman. If a quorum is not present, the Governor or, in his/her absence, the Senior Deputy Governor may convene an extraordinary meeting at which decisions may be taken without regard to the existence of a quorum; such decisions must be ratified at the next regular meeting of the Central Board to remain in effect.
- (6) Each member of the Central Board shall have one vote and in the event of a tied vote, the person chairing the meeting shall cast a tie-breaking vote.
- (7) Decisions of the Board shall be adopted by a simple majority of the members present at the meeting.
- (8) The rules of procedure of the Central Board may permit meetings and voting by teleconferencing or, in exceptional circumstances, by tested telex or other tested electronic means of communication.
- (9) Subject to the quorum requirement of subsection (5), no act or proceeding of the Central Board shall be invalidated merely by reason of the existence of a vacancy or vacancies on the Central Board.

56. Proceedings.

- (1) The proceedings of the meetings of the Central Board shall be confidential. The Central Board may decide to make the outcome of its deliberations on any matter public.
- (2) The minutes of each Central Board meeting shall be signed by the person chairing that meeting and the Secretary of the Central Board.
- (3) The Secretary of the Central Board shall be appointed by the Central Board on proposal of the Governor. The Secretary shall be a member of the Bank's staff.

Monetary Policy Committee**57. Powers of the Monetary Policy Committee.**

The Monetary Policy Committee shall, in accordance with this Act:

- (1). define and adopt the monetary policy, including, as appropriate, decisions relating to intermediate monetary objectives, key interest rates and the supply of reserves in Pakistan, and may adopt internal rules for their implementation;
- (2). define and adopt the exchange rate policy
- (3) perform any other functions conferred on it by any provision of this Act
- (4) carry out any ancillary activities incidental to the exercise of its functions under this Act

58. Membership of the Monetary Policy Committee.

- (1). The Monetary Policy Committee shall consists of [nine] members:
 - (a). the Governor, or in his/her absence, the Senior Deputy Governor, who shall be Chairperson;
 - (b) the Senior Deputy Governor
 - (c) one member to be selected by the Governor from Deputy Governors/ Chief Economist/ Economic Advisor;
- (d) the Director of the [Research Department];
- (e) the Director of the [Monetary Operations Department];
- (f) [four] external members appointed by the Federal Government, on recommendation of the Governor.

Provided that the Committee may co-opt an additional expert as member without voting rights

- (2) Each member of the Monetary Policy Committee shall have knowledge or expertise which is likely to be relevant to the Committee's functions.
- (3). Members of the Monetary Policy Committee shall not represent individual groups, special interests or areas.
- (4) The external members of the Monetary Policy Committee shall be appointed for a period of [three] years and shall be eligible for re-appointment for another term of three years.
- (5) Section 49 will apply to external members.
- (6) A member of the Monetary Policy Committee shall terminate his or her appointment or be removed from this Committee in accordance with the grounds and procedure as laid in Section 50:
 - (a) when that member becomes ineligible to serve on the Monetary Policy Committee pursuant to the previous subsection; or
 - (b) to whom grounds for removal of the members of the Central Board or termination of their appointments applies;
 - (c) when that member contravenes the Rules of Procedure of the Monetary Policy Committee.

59. Meetings of the Monetary Policy Committee.

- (1). The Monetary Policy Committee shall meet at least every six weeks;
- (2). The Monetary Policy Committee may invite any person to be present at a meeting;

- (3). A quorum at any meeting shall consist of four members but should include at least one external members;
- (4). Decisions within the Monetary Policy Committee will normally be taken on a consensual basis, without voting. However, if any member requests a vote, the matter shall be decided by a simple majority of the members present at the meeting.. and any suggestions of the minority shall be recorded in writing.
- (5). Each member of the Monetary Policy Committee shall have one vote and in the event of a tied vote, the chairman shall cast a tie-breaking vote;
- (6). The decisions of the Committee, including the minority views, shall be publicly announced after each meeting.
- (7). The minutes of each meeting shall be signed by the person chairing that meeting and the Secretary. The Secretary of the Central Board shall act as Secretary of the Committee.
- (8). Subject to subsections (1) to (7), the Committee shall determine its own rules of procedure.

Staff

60. General Provisions.

- (1) Officers/ Member of the staff shall devote the whole of their professional services to the Bank, and shall not, without permission, hold other offices or employment, whether remunerated or not, except as nominee of the Bank or for educational and civic endeavors provided that these do not conflict with the ability to serve the Bank. However, the Central Board may decide to limit or prohibit participation in such outside activities.
- (2) The Bank shall apply personnel policies that are non-discriminatory with regard to race, gender or religion, in the employment of staff.

61. Employment and Termination.

The Governor shall appoint and terminate the employment of officers/ members of the staff, agents and correspondents of the Bank, within the limits of, and in accordance with, the general terms and conditions of employment adopted by the Central Board.

CHAPTER XIII – Financial Provisions

62. Accounting Standard.

- (1) The Bank shall maintain accounts and records in accordance with the International Financial Reporting Standards as adopted by the Central Board to reflect its operations and financial condition.
- (2) The financial year of the Bank shall begin on the first day of July and end on the last day of June.

63. Annual Financial Statements and Reports.

- (1) The Bank shall prepare financial statements for its financial year.
- (2) Within four months after the close of each of its financial years, the Bank shall submit to the Federal Government and shall transmit copies to the Parliament, of:
 - (a) the financial statements, approved by the Central Board duly audited by the external auditor; and
 - (b) following reports, approved by the Central Board and the Monetary Policy Committee,
 - i. an annual performance review of Bank’s operations and affairs during the financial year that just ended.
 - ii. At least two monetary policy statements announcing the monetary stance to be followed in the short-term and an analysis of recent macro-financial events justifying the Bank’s policy stance.
 - iii. An annual financial stability review based on annual accounts of financial institutions

operating in Pakistan; and

iv. Quarterly reports on the state of the economy with special reference to inflation.

Money supply, credit, balance of payments and fiscal developments.

- (3) Upon their completion, the Bank shall publish the financial statements referred to in subsection (2), clause (a) on its website. The reports referred to in subsection (2), clauses (b) and (c) shall be published.
- (4) The Bank shall, within [ten] working days after the end of each calendar month, prepare and publish a *pro forma* balance sheet as of the end of that month. Copies of such balance sheets shall be published on Bank's website.

64. Reserve Accounts.

- (1) The Bank shall establish and maintain a general reserve account, which may not be used except for the purposes of covering losses sustained by the Bank.
- (2) The Bank shall establish unrealized revaluation reserve accounts to account for unrealized gains and losses owing to its positions with foreign currencies, gold, financial instruments, and other assets.

65. Profits, Losses and Distributable Earnings.

1. The net profits or losses of the Bank shall be determined in conformity with the International Financial Reporting Standards as adopted by the Central Board.
2. The earnings available for distribution under Section 64 shall be determined as follows:
 - (a) by deducting from the net profits the total amount of unrealized revaluation gains, and by allocating an equivalent amount to the respective unrealized revaluation reserve account; and
 - (b) by deducting from the appropriate unrealized revaluation reserve account and adding to the distributable earnings as determined in sub-paragraph (a) the amount of any unrealized profit that was deducted from the net profits for one or more previous years and was realized during the current financial year.
3. Unrealized revaluation losses will be transferred to the respective unrealized revaluation reserve accounts until such time as these revaluation reserve accounts have a zero balance, after which these losses shall be covered by the current year's profit, then by the general reserve account and subsequently by capital.

66. Allocation of Distributable Earnings and Losses.

- (1) The Central Board shall allocate the distributable earnings as follows:
 - (a) an amount of distributable earnings shall be credited to the general reserve account until the capital and general reserves become equal;
 - (b) not less than 10 percent of the remaining distributable earnings may be credited to the general reserve accounts until the balance in such account reach such sum as the Central Board deems appropriate;
 - (c) any remaining distributable earnings shall be transferred to the Federal Government as revenue for the general budget of the State.
- (2) No distribution shall be made out of current income of the Bank except as permitted by the previous subsection.
- (3) If in any financial year the Bank incurs a loss, this loss shall first be charged to the general reserve account, and subsequently applied against capital.

67. Coverage of Shortfall in Capital.

In the event that in the audited annual financial statements of the Bank, the value of its assets falls below the sum of its monetary liabilities and its capital, then:

- (a) the Central Board, with the advice of the external auditor of the Bank, shall assess the situation and prepare a report on the causes and extent of the shortfall and assess the situation within a period of no more than 30 calendar days;
- (b) in the event that the Central Board approves the above mentioned report, the Bank shall request the Federal Government for a capital contribution to be made by the State to remedy the deficit; and upon receipt of this request the Federal Government shall, within a period of no more than 30 calendar days, transfer to the Bank the necessary amount in currency or in negotiable debt instruments with a specified maturity issued at market-related interest rates prevailing in Pakistan.

68. Audit Committee.

- (1) The Central Board may, in accordance with Section 46 clause (q), appoint an Audit Committee.
- (2) The members of this committee shall be appointed from among non-executive Central Board members and external experts.
- (3) At least one member of the Audit Committee shall be an external expert that has competence in accounting or auditing.
- (4) The member referred to in the previous subsection shall be removed from office if the Central Board concludes that the conditions referred to in Section 50, subsection (1), regarding disqualification and removal of the Governor or Senior Deputy Governor, have been met with respect to this member. In addition, this member of the Audit Committee may be removed by a decision of the Central Board if it concludes that he meets one or more of the requirements for removal of the Governor or Senior Deputy Governor for cause as mentioned in Section 50, subsection (2).
- (5) With an invitation of the Audit Committee, one of the executive members of the Central Board or member of the staff may attend the meetings of the Committee, without the right to vote.
- (6) The Audit Committee's responsibilities shall include:
 - (a) overseeing the internal audit function;
 - (b) recommending the appointment of external auditors and the scope of external audits and other services;
 - (c) meeting with the auditors to discuss their findings; or
 - (d) reviewing with the external auditors the year-end financial statements
- (7) The Central Board may assign further responsibilities and define the duties of the Audit Committee..
- (8) The Audit Committee shall periodically report to the Board.
- (9) The Audit Committee may regulate its own proceedings, in keeping with any requirements of this Act and any directions given to it by the Board.

69. External Audit.

- (1) The accounts and financial statements of the Bank shall be audited by reputed and independent external auditors , at least once a year,
- (2) The Central Board shall approve the fee and other emoluments of the external auditors. No external auditor shall be appointed consecutively for a cumulative period exceeding five years, after which the audit firm shall be replaced.
- (3) The Central Board may dismiss the Bank's external auditors for good cause with reasons to be recorded in writing.
- (4) The Prime Minister may, at any time and with reasonable cause, request an external audit of the accounts of the Bank. In the event that such an audit is requested, the auditor's report shall be submitted to the Parliament for its information.
- (5) The external auditor shall report to the Audit Committee on key matters arising from the audit and in particular on material weaknesses in internal controls relating to the financial reporting process.

70. Government Audits.

- (1) Without prejudice to the autonomy of the Bank and anything contained Section 63, the Federal Government may any time appoint the Auditor-General or such auditors as it thinks fits to examine and report upon the accounts of the Bank.
- (2) The auditor shall submit its reports in accordance with subsection (1) to the Federal Government and the Bank.
- (3) The Federal Government shall indemnify the Bank against costs incurred as a consequence of the audits pursuant to subsection (1).

71. Budget.

The Bank shall prepare its annual budget, in such form and in such manner as may be approved by the Central Board.

CHAPTER XIV - General Provisions

72. Regulatory Instruments.

- (1) The Bank shall have the power to issue such regulations and decisions as may be necessary for carrying out the functions entrusted to the Bank under this Act or any other law.
- (2) A regulation issued by the Bank shall have general application. It shall be binding in its entirety and directly applicable.
- (3) A decision issued by the Bank shall be binding to whom it is addressed.
- (4) Regulations issued by the Bank shall be published in a manner deemed appropriate by the Bank and shall take effect on the date of such publication or on such later date as such regulation shall specify.

73. Administrative Penalties.

- (1) The Bank may impose administrative penalties upon all legal and natural persons operating in breach of this Act, any law being administered by the Bank or or any other relevant law or regulation.
- (2) Administrative penalties include money penalties and other administrative measures, such as written warnings or orders, suspension and dismissal of administrators of supervised financial institutions, revocation of licenses and other measures, as specified in this Act, or in any other relevant law or regulation.
- (3) The imposition by the Bank of administrative penalties stipulated in this Section shall not bar the imposition of any civil or criminal accountability under the provisions of this or any other law.

74. Standards of Good Administration.

- (1) The Bank shall use the powers given to it equitably and uniformly and in accordance with sound administrative practices. It shall refrain from using any such power to serve an objective for which the power was not given or from using power in excess of that which is required to achieve the objective for which the power was given.
- (2) The decisions of the Bank shall be impartial and shall be motivated only by objective and rational considerations. They shall be executed with fairness and restraint.

75. Conflict of interest and fiduciary duty.

- (1) Members of the decision-making bodies and staff shall have a fiduciary duty to the Bank and to place the Bank's interests before their own interest.
- (2) Members of the decision-making bodies and staff shall avoid any situation likely to give rise to a conflict of interest. A conflict of interest arises where members of the decision-making bodies or staff have private or personal interests which may influence or appear to influence the impartial and objective performance of their duties. Private or personal interests of members of the decision-

making bodies or staff mean any potential advantage for themselves, their families, their other relatives up to the second degree, or their circle of friends and acquaintances.

- (3) The Governor, Senior Deputy Governor and the Deputy Governors shall perform their duties on a full-time basis, and shall not engage in any other occupation, whether gainful or not, except in those exceptional cases in which an exemption from this restriction shall have been granted by the Central Board.
- (4) No member of the decision-making bodies or of the staff shall receive or accept from any source any benefits, rewards, remuneration or gifts in excess of a customary or negligible amount, whether financial or non-financial, which benefits, rewards, remuneration or gifts are connected in any way whatsoever to their activities within the Bank.
- (5) A breach of the previous subsection by a member of the decision-making bodies or the staff shall, independently of the value given or received, constitute a serious misconduct. Where it concerns a member of the Board, such misconduct constitutes serious misconduct within the meaning of Section 49, subsection (3), clause (d). Such misconduct, where it concerns a member of the staff, may, at the discretion of the Governor, constitute grounds for disciplinary measures [, including dismissal without compensation].
- (6) Members of the decision-making bodies and staff shall not use confidential information to which they have access for the purpose of carrying out private financial transactions, whether directly or indirectly via third parties, or whether conducted at their own risk and for their own account, or at the risk and for the account of a third party.
- (7) Members of the decision making bodies shall before the last day of January each year disclose in full to the Bank significant financial interests which he or any person with whom he has family, business, or financial connections may directly or indirectly possess and such disclosures shall comply with any internal rules adopted by the Central Board regarding such matters.
- (8) Whenever any matter related to such interest is before the Central Board, the member concerned shall disclose his/her interest at the beginning of the discussion and shall not participate in the discussion and decision on such matter; however, his or her presence shall be counted for the purpose of constituting a quorum.
- (9) The Central Board may establish internal rules to implement the requirements mentioned in the previous subsections.

76. Fees and Charges

The Bank may charge reasonable fees and charges for the services it provides and shall publish them.

77. Prohibited Activities

- (1) Except as otherwise specifically authorized by law, the Bank shall not:
 - (a) grant any credit or make any significant monetary or financial gift;
 - (b) engage in commerce, purchase the shares of any corporation, including the shares of any financial institution, or otherwise have an ownership interest in any financial, commercial, agricultural, industrial, or other undertaking; or
 - (c) acquire by purchase, lease, or otherwise any rights in or to real property, except as it shall consider necessary or expedient for the provision of premises for the conduct of its and its subsidiaries administration and operations or welfare of its employees or similar requirements incidental to the performance of its functions.
- (2) Notwithstanding the previous provisions of this Section, the Bank may:
 - (a) make adequately secured loans to, or have an ownership share or otherwise participate in, any organization that is engaged in activities that are required or useful for the proper discharge of the Bank's own functions and responsibilities or to its employees for their personal use;
 - (b) acquire, in the course of satisfaction of debts due to it, any interests or rights referred to in this Section; provided, however, that all such interests or rights so acquired shall be disposed of at

- the earliest suitable opportunity; and
 - (c) establish staff retirement funds or similar arrangements for the benefit or protection of the staff;
 - (d) advance money on the mortgage, or otherwise on the security, of immovable property or documents of title relating thereto, except where such advance is made to any of its officers or servants for acquisition of land/ house/transport against adequate security.
- (3). Any activity such as mentioned in subsection (2) shall be published by the Bank in the report as referred to in Section 62, subsection (2), clause (b).

78. The Bank and its officers to be public officers.

- (1) For the purposes of Article 7 of the Qanun-e-Shahadat, 1984 (P.O. No. 10 of 1984), the provisions of Part IV of the Code of Civil Procedure, 1908 (Act V of 1908), and the provisions of rule 27 of Order V, and rule 52 of Order XXI of the said Code, the Bank and any person in the service of the Bank acting in his/her capacity as such shall be deemed to be public officer.
- (2) The provisions of Article 6 of the Qanun-e-Shahadat, 1984 (P.O. No.10 of 1984), shall apply to the unpublished records of the Bank and the Governor shall be deemed to be the officer or head of the department concerned.
- (3) Every person in the service of the Bank shall be deemed to be a public servant within the meaning of section 21 of the Pakistan Penal Code (Act XLV of 1860).

79. Pensions of Bank employees to be exempt from attachments, etc.

Notwithstanding anything contained in any law for the time being in force pension granted by the Bank to its officers and servants shall not be liable to seizure, attachment or sequestration by process of any Court in Pakistan at the instance of a creditor, for any demand against the pensioner or in satisfaction of a decree or order of any such Court.

80. Immunity from taxation

- (1) The Bank and its subsidiaries shall be exempt from all taxes on its income and all duties, excise and other taxes and levies.
- (2) The Bank shall be exempt from all other taxes duties and levies from which Government ministries and other public agencies are exempted by law. In particular, the Bank and any subsidiary or trust established by it shall not be liable to the payment of any Stamp Duty under the Stamp Act, 1899. In addition, notwithstanding anything in the Wealth Tax Act, 1963 (XV of 1963), and Income Tax Ordinance, 2001 (XLIX OF 2001), or any other law for the time being in force relating to wealth tax, income tax or super tax, the Bank and any subsidiary, or trust, established by it shall not be liable to pay wealth tax, income tax or super-tax on their income or wealth.

81. The Act to override other laws

- (1) In the event that the provisions of this Act conflict with those of other laws, then the provisions of this Act shall prevail.
- (2) The provisions of this Act shall not be revoked, annulled, amended or superseded, in whole or in part, by other laws, unless the subsequent legislation specifically amends this Act and any such change shall require prior consultation with the Bank.

82. Confidentiality

- (1) No person who serves or has served as a member of the decision-making bodies or staff shall, except when necessary to fulfill any function or duty imposed by this Act or any other law, permit access to, disclose or publicize non-public information which she or he has obtained in the performance of her

- or his duties or use such information, or allow such information to be used, for personal gain.
- (2) Notwithstanding the previous subsection, such persons may disclose non public information outside the Bank, in accordance with procedures established by the Bank, if such disclosure:
 - (a) is made in accordance with the express consent of the person about whom the information relates;
 - (b) fulfills a duty to disclose as imposed by law, including to assist law enforcement or on the order of a court;
 - (c) is made to the external auditors of the Bank;
 - (d) is given to domestic and foreign regulatory and supervisory authorities or to public international financial institutions, in the performance of their official duties; or
 - (e) is required by the interests of the Bank itself in legal proceedings.
 - (3) The Central Board shall determine the classification and accessibility of documents held by or drawn up by the Bank.

83. Preferential right

- (1) The Bank shall have a first priority unconditional preferential right to satisfy each of its claims arising from the execution of its functions from any cash balances, securities and other assets that it holds for the account of the debtor concerned, whether as collateral to secure its claims or otherwise, at the time that such claim becomes due and payable.
- (2) The Bank may exercise its preferential right only by appropriating the cash balances by way of compensation and by selling securities and other assets without undue delay in a commercially reasonable manner and paying itself from the proceeds of the sale after deducting there from the costs associated with the sale.
- (3) No court action shall be required, and no competing claim shall be permitted, to delay the exercise by the Bank of its preferential right in accordance with the provisions of this Section.

84. Immunity from prejudgment attachment

- (1) No attachment or execution shall be issued against the Bank or its property, including gold, special drawing rights, currency, credits, deposits or securities, and any proceeds thereof, before the issuance of a final judgment in any legal action brought before the courts of Pakistan.
- (2) The Bank may, in whole or in part, waive this protection, explicitly and in writing, except with respect to its gold and the special drawing rights.

85. Judicial review

In any court or arbitration proceeding against the Bank, a member of the decision-making bodies or of the Bank's staff, or an agent of the Bank in carrying out their duties to the Bank:

- (a) the court or arbitration panel in reaching its decision may examine whether the defendant acted unlawfully or in an arbitrary or capricious manner in light of the facts and the relevant law and regulations;
- (b) a member of the decision-making bodies, or of the staff, or agent of the Bank, including a person previously holding such a position, shall not be liable for damages or otherwise liable for acts or omissions performed pursuant to and in the course of the duties and responsibilities performed on behalf of the Bank unless it has been proven that such acts or omissions constitute intentional wrongful conduct or gross neglect;
- (c) the action in question shall continue without restriction during the period of an appeal and any further appeal or other judicial proceedings related to the appeal; and

- (d) the court or arbitration panel shall be authorized, in appropriate cases, to award monetary damages to injured parties, but shall not enjoin, stay, suspend or set side the actions of the Bank.

86. Indemnification for costs

The Bank shall indemnify a member of the decision-making bodies, its staff, or an agent of the Bank against costs incurred in the defense of a legal action brought against such person in connection with the discharge or purported discharge of official functions within the scope of his/her employment or engagement under this Act, provided that no such indemnification shall apply if such person has been convicted of a crime arising out of the activities that are covered by such legal action.

CHAPTER XV – Repeal and Transitional Provisions

87. Repeal and Transitional Provisions

- (1) The State Bank of Pakistan Act, 1956 (Act No. XXXIII of 1956), is hereby repealed.
- (2) Any rules or regulations made, order passed, notification issued, thing done, action taken or proceedings commenced under any of the provisions of the State Bank of Pakistan Act, 1956, or deemed to have been so made, passed, issued, done, taken or commenced, shall continue in force and be deemed to have been made, or as the case may be, passed, issued, done, taken or commenced under the corresponding provision of this Act.

88. Removal of difficulties.

If any difficulty arises in giving effect to any of the provision of this Act the Federal Government may, as recommended by the Bank, make such order as may appear to it to be necessary for the purpose of removing the difficulty