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Dr Akhtar announces Reforms Agenda for Exchange Companies

Dr Shamshad Akhtar, Governor, State Bank of Pakistan has announced the blueprint of reforms being introduced in the Exchange Company Sector with a view to (i) define more clearly the objectives and scope of exchange companies, (ii) well capitalize the sector, and (iii) bring better market discipline through enhanced transparency, disclosure and strong monitoring and supervision. However, these measures will be introduced in a manner that promotes long-term business interests in an effective and well-encompassing regulatory environment while seeking to avoid potentially adverse near-term impacts on the service levels of Exchange Companies for general public. This announcement was made by the Governor during a meeting with the Heads of Exchange Companies held at the State Bank of Pakistan, Karachi today.

Dr Akhtar said that SBP has decided to change its approach from 'bringing financial discipline and corporate culture' to 'ensuring discipline and maximum compliance'. In this respect SBP has reviewed the whole regime for exchange companies with the objective of defining better role and responsibility of exchange companies. On the enforcement side, the exchange companies should not expect any leniency. SBP would not spare any company regardless of its market size to establish the regulatory writ.

She announced that the State Bank is launching the second-phase reforms for the exchange companies and will issue regulatory guidelines that will set in motion corporate governance reforms for the exchange companies. A notice regarding these reforms was issued to exchange companies in the last meeting chaired by the Governor. "Our intention is to take you (exchange companies) forward and to promote your businesses provided you abide by rules of business," she asserted. She also urged upon the exchange companies to seek mergers & acquisitions so as to consolidate and strengthen the sector and increase its efficiency.

While referring to recent speculative trends in the kerb market, Dr Shamshad Akhtar, Governor, State Bank of Pakistan has directed the exchange companies to keep dollar-rupee parity differential between the Inter-Bank and Kerb markets at rational levels, restrain from speculation and to focus on bringing in home remittances into the country. "**This differential should not be beyond normal trends seen in the past,**" she told exchange companies representatives.

In response, the Exchange Companies representatives gave a firm commitment to the Governor that they will ensure that dollar-rupee parity differential between the Inter-Bank and Kerb market comes down to normal levels within a week. They also assured their cooperation to work with SBP. Dr Akhtar said that instead of curbing speculative trends, some exchange companies are playing a role in the speculation that is totally unacceptable. “You should not be led by speculation...it is the time to serve the country not to mint money through irregularities,” she added.

SBP Governor said that the whole idea behind setting up exchange companies was that these companies would play a pivotal role in attracting home remittances and in curbing activities of illegal operators. But, she added, it has been noted that some exchange companies are themselves indulging in illegal activities. “Any evidence obtained against any exchange company would be sufficient to suspend or cancel the licence of that company,” she warned.

SBP Governor further stressed upon exchange companies to focus on bringing in more and more home remittances and added that “this should be the primary target of the exchange companies.” Dr Akhtar said that in 2006 the State Bank had made it clear that no remittance on account of trade transactions would be undertaken by exchange companies. However, it has been observed that a number of remittances are being reportedly made for trade settlement directly or indirectly. “SBP has taken a very serious view of it and we are going to take action against companies involved in these transactions and also in other irregularities,” she added.
