

A Chronology of Policy Announcements

A-1 Banking Policy & Regulation Group

Date of Announcement	Circular/Circular Letter No	Policy Decision
July 5, 2010	BPRD Circular Letter No. 15	<p>Regulation R-6 of Prudential Regulations for Corporate/Commercial Banking</p> <p>In order to facilitate development of Real Estate Investment Trusts (REIT) in Pakistan, it was decided that banks/DFIs' investment in units of REIT shall not be counted towards the aggregate investment limits of 30% and 45% of equity of the banks and Islamic banks/DFIs respectively, prescribed in the Regulation R-6 of Prudential Regulations for Corporate/Commercial Banking.</p>
October 05, 2010	BSD Circular No. 05	<p>Use of Ratings – Implementation of Basel II</p> <p>It was clarified that for capital adequacy purposes the term Solicited Rating shall mean a rating initiated at the request of entity being rated under a formal agreement between the rating agency and the entity being rated. To be eligible for risk weighting purposes, the rating must meet following requirements;</p> <ul style="list-style-type: none"> i. agency is given access to all information required to rate the entity; ii. agency is authorized to assign rating; iii. and rating assigned is disclosed publically <p>The requirement of formal agreement between rating agency and the entity being rated, as mentioned in point (2) above, would not be applicable in case the rating is conducted by international rating agencies recognized by SBP, however rating should be publically disclosed. With immediate effect, Banks/ DFIs would be allowed to use only solicited ratings assigned by recognized External Credit Assessment Institutions (ECAIs) for the purpose of capital adequacy provided the ratings fulfill following conditions;</p> <ul style="list-style-type: none"> a. All ratings used should be publically disclosed by the ECAIs along with its history. b. The rating agency should have reviewed/ assigned the rating within previous 15 months. c. Banks/DFIs should have mechanism to monitor

		changes in ratings (upgrade, downgrade and withdrawals) for accurate Capital Adequacy Ratio reporting.
November 02, 2010	BSD Circular No. 06	<p>Relief Measures for Agriculture and SME Loans/advances of Floods Affected Areas</p> <p>In order to provide relief to the borrowers of flood affected areas identified by the National Disaster Management Authority (NDMA), banks/DFIs were encouraged to reschedule/restructure Agriculture and SME loans/ advances to such borrowers, as per existing Prudential Regulations (PRs) of Agriculture and SME Financing, where the possibility of recovery exists. For all such rescheduled/restructured loans and advances, Banks/DFIs may defer loan provisioning up to 31st December 2011. However, classification of such loans shall be done as per criteria laid down in the relevant PRs. This relaxation is available for loans and advances which have become non-performing since July 1, 2010 in the affected areas identified by NDMA. Loans/advances classified before this date shall not qualify for this relaxation.</p>
November 08, 2010	BSD Circular Letter No. 14	<p>Prudential Regulation G-1, Corporate Governance/ Board of Directors and Management - Rotation of External Auditors</p> <p>It was decided that the banks which are majority owned subsidiaries of foreign bank, may continue with the same external auditor(s) or their affiliated firm(s) in Pakistan as of their parent foreign bank even after five years as required under the above regulation, after seeking prior clearance from State Bank of Pakistan. However, the engagement partner(s) of such audit firms shall be rotated after every five years. In this context, subsidiary shall have the same meaning as explained in section 3 of Companies Ordinances 1984.</p>
November 26, 2010	BSD Circular No. 07	<p>Prudential Regulation No. 4: Minimum Capital Requirement for MFBs</p> <p>The State Bank of Pakistan (SBP), in exercise of the powers vested under Section 10 of the Microfinance Institutions Ordinance 2001, had decided to revise the minimum capital requirement for Microfinance Banks (MFBs). Microfinance Banks (MFBs) shall maintain a minimum Paid-up Capital (free of losses) of not less than</p> <p>i. Three hundred million rupees if licensed to operate in</p>

		<p>a specified district;</p> <p>ii. Four hundred million rupees if licensed to operate in a specified region;</p> <p>iii. Five hundred million rupees if licensed to operate in a specified province; and</p> <p>iv. One billion rupees if licensed to operate at national level.</p> <p>The MFBs which do not meet this revised MCR were advised to enhance their Paid-up Capital (free of losses) according to the following transitional arrangement:</p> <table border="1"> <thead> <tr> <th rowspan="2">Category</th> <th colspan="3">Minimum Paid up Capital (free of losses) required as of</th> </tr> <tr> <th>December 31, 2011</th> <th>December 31, 2012</th> <th>December 31, 2013</th> </tr> </thead> <tbody> <tr> <td>MFB licensed to operate at national level</td> <td>Rs 600 million</td> <td>Rs 800 million</td> <td>Rs 1 billion</td> </tr> <tr> <td>MFB licensed to operate at district level</td> <td>Rs 200 million</td> <td>Rs 250 million</td> <td>Rs 300 million</td> </tr> </tbody> </table>	Category	Minimum Paid up Capital (free of losses) required as of			December 31, 2011	December 31, 2012	December 31, 2013	MFB licensed to operate at national level	Rs 600 million	Rs 800 million	Rs 1 billion	MFB licensed to operate at district level	Rs 200 million	Rs 250 million	Rs 300 million
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Dec 06, 2010	IBD Circular Letter No. 01	<p>Presentation of Shariah Compliance Report to the Board of Directors</p> <p>To provide an opportunity to the Shariah Advisor to present the Shariah Compliance Report to the Board of Directors (BoD) and apprise the Board about his assessment on the overall Shariah compliance levels and environment in the institution, the IBIs were advised to invite their respective Shariah Advisor for discussion on the Shariah Compliance Report in the BOD meetings in which annual audited accounts and Shariah Advisor's report are discussed and approved</p>															
January 06, 2011	BPRD Circular No. 01	<p>Prudential Regulations for Consumer Financing</p> <p>Besides other minor amendments, to contain concentration risk on account of consumer facilities availed by one person, both on secured as well as on unsecured basis, industry-wide overall credit card and personal loan limit of Rs.5,000,000 was introduced with sub ceiling of Rs.2,000,000 on unsecured facilities.</p>															
January 15, 2011	BPRD Circular No. 02	<p>Revision in Branch Licensing Policy</p> <p>Banks were allowed to open dedicated Home Remittance Centers (HRCs) for making payments to home remittance beneficiaries through permanent booths.</p>															
February 23, 2011	BPRD Circular No. 03	<p>Prudential Regulations</p>															

		To promote enabling environment for exporters earning precious foreign exchange for the country, concessions were allowed in respect of inclusion of bills purchased/discounted in per party exposure limit.
April 9, 2011	BPRD Circular Letter No. 08	Revision in Branch Licensing Policy In order to provide incentive to commercial banks for enhancing outreach of Islamic banking services, scope of “Rural/Underserved Areas (RUAs)” definition was enhanced. Under the revised policy, the districts having less than 10 Islamic Banking Branches (IBBs) have been categorized as RAUs for the purpose of Islamic banking branches.
April 27, 2011	BPRD Circular No. 06	Regulation R-11 of the Prudential Regulations for Consumer Financing Regulation R-11 was replaced with the following Para: “While allowing auto loans, the banks/DFIs shall ensure that the minimum down payment does not fall below 10% of the value of the car/vehicle. Further, the banks/DFIs may extend auto loans for the ex-factory tax paid price fixed by the manufacturers and the cost of ancillary item(s) (like CNG Kits, vehicle tracking device i.e. Global Positioning System commonly known as “Tracker” etc.) desired by the borrower to be fitted in the car/vehicle. However, the banks/DFIs shall not finance the premium charged by the dealers and/or investors over and above the ex-factory tax paid price of cars/vehicles, fixed by the manufacturers.”
May 13, 2011	BPRD Circular Letter No. 12	FPT of Acting CEO In order to resolve the issues regarding the appointment of Acting CEO, during temporary vacation of the office of CEO (not exceeding one month), SBP directed the banks/DFIs to entrust charge of the office of CEO to an officer meeting the FPT Criteria
May 27, 2011	BPRD Circular No. 7	Service Charges on PLS Deposit Accounts Banks were restricted to levy service charges on regular saving accounts on the basis of maintaining minimum balance and there will be no condition of maintaining a minimum balance for these accounts.
June 01, 2011	BSD Circular Letter No.8	Capital Adequacy Ratio – MFBs Microfinance Banks were allowed to treat gold as eligible collateral with 0% risk weight for calculation of Capital Adequacy Ratio.

June 20, 2011	BPRD Circular No. 9	<p>Branchless Banking Regulations for Financial Institutions</p> <p>Certain amendments in the existing Branchless Banking Regulations were made with the objective of expanding the outreach of branchless banking operations.</p>
August 26, 2010	OSD Circular Letter No. 02	<p>Data Submission Timeline of Quarterly Data under Reporting Chart of Accounts (RCOA) submitted through Data Acquisition Gateway Portal</p> <p>Reference to Regulation No.27 of Prudential Regulations for Microfinance Banks (MFBs) and SBP, MFD Circular Letter No.01 dated October 20, 2009.</p> <ol style="list-style-type: none"> 2. It has been decided to change the data submission timeline of quarterly data from quarter ending June 30, 2011. The Microfinance Banks (MFBs) will upload their quarterly data through Data Acquisition Gateway (DAG) portal within 18 working days from the end of each quarter instead of 30 days. 3. All MFBs should take necessary actions to upgrade their systems so as to ensure data submission within 18 working days by June 2011. MFBs are further advised to submit their action plans and forecasted reduction in data submission time for next three quarters within 15 days of this circular letter. 4. The late/non submission of the data through portal will attract punitive action under the relevant provisions of the Microfinance Institutions Ordinance, 2001. 5. All other instructions shall remain unchanged.

A-2 Development Finance Group

Date of Announcement	Circular No.	Policy decision
August 09, 2010	ACD Circular No. 01	<p>Loans for Agricultural Purpose Rules, 1973 Revision in PIU Value of Land in the Passbook</p> <p>Reference to ACD Circulars No. 2/90 and 4/2007 dated 21st January, 1990 and 25th September, 2007 on the subject. In this regard, Finance Division (Internal Finance Wing), Government of Pakistan vide Notification</p>

		<p>S.R.O No. F. 12(1) IF-I/2009-879 dated 12th July, 2010 (Copy enclosed) has enhanced the Produce Index Unit (PIU) value from Rs 1200 to Rs 2000.</p> <p>All banks are advised to carry out necessary amendment in the Loans for Agricultural Purpose Rules, 1973 as indicated in the above said Notification and also issue instruction to their branches for necessary action in this regard. However, SBP instructions on accepting agricultural land as security on the basis of realizable/forced sale value in addition to PIU or market value shall remain unchanged.</p>
<p>August 11, 2010</p>	<p>ACD Circular No. 02</p>	<p>Streamlining of Agricultural Lending Procedures and Documentation</p> <p>In order to ensure timely disbursement of Agri. Credit to the farming community, SBP in consultation with banks has revised the list of documents to be obtained against various kinds of agri. loans and streamlined the turnaround time for Agri. Loan processing (Annexure I, II & III).</p> <p>Further, to strengthen the existing agri. lending structure and remove lapses in agri. loan management, banks are advised to take following measures by 31st December, 2010:-</p> <ul style="list-style-type: none"> • Develop a comprehensive Agriculture Finance policy in line with PRs duly approved by their Board of Directors. • Set up and maintain a fully dedicated Agri. Finance Department/Division/Unit equipped with qualified agri. financing experts and officers with specified job responsibilities and career progression opportunities. • Develop an overall annual regional agricultural portfolio plan and assign targets for disbursement, growth in outstanding portfolio & number of borrowers to respective agri. designated branches. The concerned Regional Business Chiefs or Area Heads to be made responsible for the achievement of the targets. • Number of agri. designated branches and Agricultural Credit Officers to be increased

		<p>significantly in a phased manner, in proportion to the overall credit portfolio of the area and potential of agricultural activities.</p> <ul style="list-style-type: none"> • Delegate adequate powers to each agri. designated branch or its nearest Zonal or Area office for sanctioning small agri. loans with requisite internal control functions in place. • Launch financial literacy program for awareness of the farming community about agri. lending products / schemes of the bank. • Provide the field functionaries necessary logistics, communication and other facilities to ensure timely delivery of services including spot verification, processing, disbursements, follow-up and recovery. <p>Banks are advised to strictly comply with the above instructions and maintain proper record for inspection purposes. SBP and its field offices (SBP-BSC) will also monitor the compliance on regular basis.</p>
July 27, 2010	MFD Circular No. 03	<p>Amendment in Prudential Regulation No.12: Classification of Assets and Provisioning Requirements</p> <p>It has been decided to amend Prudential Regulation No. 12 for classification of assets and provisioning requirements.</p> <p>2. As per the revised instructions, in addition to cash collateral, gold (ornaments and bullion) shall also be considered for the benefit in specific provisioning against non-performing loans.</p> <p>3. All other instructions will, however, remain unchanged.</p>
November 02, 2010	MFD Circular No. 04	<p>Relief Measures for Borrowers of Floods Affected Areas</p> <p>In order to provide relief to the borrowers of flood affected areas identified by the National Disaster Management Authority (NDMA), microfinance banks (MFBs) are encouraged to reschedule/restructure loans to such borrowers, as per existing Prudential Regulations (PRs) for MFBs, where the possibility of recovery exists.</p> <p>2) For all such rescheduled/restructured loans</p>

		<p>and advances, MFBs may defer loan provisioning up to 31st December 2011. However, classification of such loans shall be done as per criteria laid down in the relevant PRs. This relaxation is available for loans and advances which have become non-performing since July 1, 2010 in the affected areas identified by NDMA. Loans/advances classified before this date shall not qualify for this relaxation.</p> <p>3) Any misuse of above relaxations would attract penal actions under the provisions of MFIs Ordinance 2001.</p>
<p>January 01, 2011</p>	<p>MFD Circular No. 01</p>	<p>Addition in Prudential Regulations (PR) No. 17 for Microfinance Banks (MFBs)</p> <p>Following instructions have been added with immediate effect under a separate head of “Record Retention” to Prudential Regulation No. 17 for Microfinance Banks (MFBs).</p> <p>2) The records of transactions and identification data should be maintained by MFBs in systematic manner with exactness of period of preservation. For the purpose, following minimum requirements shall apply;</p> <p>i). Identification Record: MFBs shall keep record on the identification data obtained through the Customer Due Diligence (CDD) process, account files and business correspondence for at least five years following the termination of the business relationship.</p> <p>ii). Transactions Record: MFBs shall maintain all necessary records on transactions, both domestic and International, for at least five years following completion of the transaction. Such record must be sufficient for reconstruction of individual transactions so as to provide, if necessary, evidence for investigation or prosecution of criminal activity.</p> <p>The examples of the necessary components of transaction record may include: customer’s name (beneficiary’s name), address, nature and</p>

		<p>date of transaction, type and amount of transaction, currency involved, type and identification of any account involved in the transaction.</p> <p>3) The identification and transactions record should be made available to SBP as and when required.</p> <p>4) MFBs shall, however, retain records for longer period, if required by any other law or where transactions and / or relationship relate to any investigation, litigation or required by the Court of law or by any other competent authority.</p> <p>5) State Bank of Pakistan, during the course of inspection, would particularly check the compliance of the above instructions.</p>
<p>Consequent upon restructuring of State Bank of Pakistan vide Circular letter No. HRD (HP&JEU)/10 /F-69-2011 dated February 22, 2011, Agricultural Credit Department and Microfinance Department were merged to form Agricultural Credit & Microfinance Department (AC&MFD) Ref: No. HRD (HP&JEU)/ 18 /F-69-2011 dated April 12, 2011</p>		
September 16, 2011	AC&MFD Circular No. 01	<p>Prudential Regulations for Microfinance Banks- Review of Instructions relating to General Provision Requirements</p> <p>Reference to Prudential Regulation No. 12 for Microfinance Banks as amended from time to time.</p> <p>2) It has been decided to withdraw the general provision requirements wherein loans have been secured against gold or other cash collateral with appropriate margin. Further, in case of all other loans, Microfinance Banks shall henceforth maintain general provision of 1% instead of the existing requirement of 1.5%.</p> <p>3) All other instructions on the subject shall remain unchanged.</p>
October 12, 2011	AC&MFD Circular No. 02	<p>Guidelines for Efficient Water Management Financing</p> <p>Climate changes, scarcity of usable canal water availability, wastage of water and depleting underground water tables are the challenges in the growth of agriculture in the country.</p>

		<p>Adoption of modern water management techniques by the farmers is necessary to ensure optimal water utilization for soil fertility and better yield.</p> <p>To ensure availability of credit to the farmers for the purchase and maintenance of such systems and techniques, SBP in consultation with stakeholders has developed attached guidelines for efficient water management financing. The guidelines are aimed at facilitating banks in developing specific products for the purpose.</p> <p>Banks may adopt the guidelines in the present form or with some adjustments to suit their organizational & operational needs and market characteristics, subject to compliance with SBP's regulations for agriculture financing.</p>
<p>October 18, 2011</p>	<p>AC&MFD Circular No. 03</p>	<p>Islamic Agricultural Financing for Farm/Crop Production Purposes under Salam</p> <p>While reviewing the implementation status of SBP guidelines on Islamic financing for agriculture issued vide ACD Circular No. 1 dated 3rd February, 2009, it has been observed that difficulties are being faced by IBIs in development of specific products for farm and non-farm sector activities.</p> <p>Therefore, to further facilitate IBIs and to improve the access of agricultural Islamic financing to the farming community, attached model product based on 'Salam' has been developed in consultation with stakeholders. The product has covered the Sharia related aspects as well as business cycle and financing requirements of farm/ crop production activities. The product is supported by practical examples and process flow of the Salam transaction.</p> <p>IBIs may adopt the model product in the present form or with some adjustments to suit their organizational & operational needs and market characteristics, subject to compliance with SBP regulations and approval from their Shariah</p>

		<p>Advisor.</p> <p>Further, IBIs are advised to ensure that their relevant staff possesses the requisite knowledge and expertise about the product. They should also launch awareness campaigns through electronics & print media, seminars, workshops, etc to ensure that their clients/ farmers are fully educated about the product and familiar with the requirements like documentation, loan limit, process flow/ procedure, etc.</p>
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A-3 Financial Market/Reserve Management Group

Date of announcement	Circular No.	Policy Decision
2011 January 19	FE-01	<p>Export of FCYs other than US Dollars: Effective January 19, 2011, the Exchange Companies established under F. E. Circular No. 9 of 2002 have been allowed to export all types of FCYs other than US Dollars as per prescribed procedure and declaration at SBP-Customs Joint Booths located at Jinnah Int'l Airport, Karachi and Allama Iqbal Int'l Airport, Lahore. The Exchange Companies shall, however, ensure to receive the equivalent US Dollars against exported currencies in their foreign currency accounts maintained with banks in Pakistan within 3 working days. Previously, Exchange Companies were disallowed to export cash in U.K Pound Sterling, Euro and UAE Dirhams.</p>
2011 March 22	FE-02	<p>Forward Cover Facility against Imports: In order to meet the genuine business needs of importers, effective March 22, 2011, the forward cover facility against imports has been restored subject to compliance of all related instructions contained in Chapter IV, FEM-2002 and the following terms and conditions:</p> <ol style="list-style-type: none"> 1. Forward cover facility will be made available to importers against the Letter of Credit only. 2. No forward cover facility will be provided for a period of less than one month. Roll over in those cases where import payment is not made in accordance with the schedule, will be allowed subject to the condition that the roll over is not less than one month 3. In terms of instructions contained in chapter IV of F.E. Manual 2002, banks will ensure abinitio that the facility is being availed for genuine import transaction and that the importers do not hedge more than the underlying exposure. Furthermore, if during SBP's inspection or at any point of time, it is found that the said facility was misused for and not against genuine transactions, action will be taken by SBP

		<p>under Foreign Exchange Regulation Act, 1947, against the concerned bank and the importer.</p> <p>4. As per the existing regulations, all forward contracts against which the L/Cs are cancelled are required to be closed out on maturity and differential is settled between the importer and the bank. However, all such cases, where underlying L/Cs were cancelled will be submitted to SBP on maturity with full details, reasons and justification, for further action by SBP as deemed appropriate in terms of regulations under the FERA Act 1947.</p> <p>Previously, forward booking against all types of imports was temporarily suspended.</p>
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A-4 Payment System

Date of Announcement	Circular No.	Policy Decision
July 08, 2010	PSD Circular No. 02	<p><u>Guidelines for the Standardization of ATM Operations</u> This Circular Letter was issued to further streamline the timelines for automatic Credit of suspense ATM cash and to segregate the responsibilities of various stakeholders as was mentioned in Annexure-A of PSD Circular No. 01, of April 06, 2006.</p>
September 06, 2010	PSD Circular No. 03	<p><u>Management of ATMs during EID Holidays</u> This Circular Letter was to further stress on the facilitation of cardholders cash withdrawals through ATMs as banks were advised vide PSD Circular No. 02 dated October 20, 2006 titled “<u>Management of ATM cash and Downtime</u>”.</p> <p>Banks were reminded to ensure the availability of cash replenishment on regular intervals, necessary back up arrangements, deployment of necessary staff to address problems and any breakdowns or cash outage incidents.</p>
October 22, 2010	PSD Circular No. 04	<p><u>Guidelines for Retained/ Disabled Cards on ATMs – Special instructions for Watan Cards</u> Through this Circular Letter all banks were advised to enhance efforts and support to Watan Card holders in case where their cards are being captured and/ or disabled by ATMs.</p> <p>Banks were also advised the procedure of returning the captured cards to its complainants and to take necessary steps to prevent fraudulent use of Watan Cards at their outlets.</p>
February 04, 2011	PSD Circular No. 01	<p><u>Transaction Charges</u> Through this Circular PSD communicated to all banks (PRISM) Direct Members/ Participants about its decision to levy a nominal service charge of Rs.200 per transaction in PRISM system on all Interbank Funds Transfers (including</p>

		customer transactions) and Government Securities Transactions.
February 11, 2011	PSD Circular No. 02	<p><u>Settlement of 3rd Party Fund Transfers through PRISM System</u> Through this Circular SBP allowed 3rd party fund transfer facility in PRISM system with a view to increase the coverage of electronic payment systems.</p> <p>Therefore, all direct participants were allowed to send individual 3rd party fund transfers (using MT 103) through PRISM system for amount of PKR 10 million and above. It was expected that extending this facility would not only enhance efficient and timely fund transfers by banks, but would also result in cost reduction for such transfers for the customers of banks.</p>
May 13, 2011	PSD Circular No. 01	<p><u>Settlement of 3rd Party Fund Transfers through PRISM System</u> This Circular Letter was issued to further enhance the scope of 3rd party fund transfers through PRISM system.</p> <p>It was communicated to all Direct Members/ Participants of PRISM system that the lower value limit for 3rd party funds transfer shall now be PKR 1 million and above. The time limits were also revised. It was also communicated that the transaction charges levied by banks/ DFIs on such customer transfers shall not be higher by more than 10% of the charges levied by SBP for such transfers.</p>