

B-1 Central Board Decisions and Deliberations during FY11

Decisions/deliberations/approvals by the Central Board during FY11 have been categorized into matters related to Corporate Governance, Monetary Policy & Research, Banking, Financial Markets and Reserve Management, & Corporate Services.

Corporate Governance

1. Re-nomination of External Members on the Monetary Policy Committee of the Central Board of SBP.
2. Nomination of a Board member on the Monetary Policy Committee of the Central Board.
3. One year extension in the term of the External Expert on the Audit Committee of the Central Board.
4. Re-composition of Central Board's Committee on Audit and nomination of Chairman.
5. Revision in Terms of References (TORs) of the HR Committee of the Board.
6. Revision in Terms of Reference (TORs) of the Audit Committee of the Board.
7. SBP's Strategic Plan FY11-15.
8. Reorganization of State Bank of Pakistan.
9. Appointment of Auditors for FY11.
10. Amendment in the State Bank of Pakistan (Conduct of Central Board Meetings) Regulations, 1993.

Monetary Policy & Research

1. Appointment of external service-provider to conduct Price & Wage Setting Behaviour surveys.
2. Report on the working of the Bank for the year ended June 30, 2010.
3. Monetary Policy Statement
 - July, 2010
 - January, 2011
4. Monetary Policy Decision
 - September, 2010
 - November, 2010
 - March, 2011
 - May, 2011
5. Approval for conducting the survey "Consumer Confidence Index of Pakistan" to assess inflation expectations of the general public.
6. The State of Pakistan's Economy
 - First Quarterly Report (July-September, 2010)
 - Second Quarterly Report (October-December, 2010)
 - Third Quarterly Report (January-March, 2011)
7. Financial Stability Review 2009-2010.

Banking

1. Quarterly Performance Review of the Banking System for the quarter ended
 - March 31, 2010
 - June 30, 2010

- September, 2010
 - December, 2010
2. Approval of SBP's Membership in International Islamic Liquidity Management Corporation (IILM).
 3. Panel of Professional Bankers maintained by the State Bank of Pakistan.
 4. Overview of SBP's Banking Regulatory Framework.

Financial Markets and Reserve Management

1. Periodic review of performance and composition of SBP's reserves portfolio.

Corporate Services

1. Finance/Budget Related Matters
 - Incurrence of expenditures during interim period of budgetary approval for FY11.
 - Revenue Expenditure Budget and Capital Expenditure Budget of SBP and its subsidiaries for FY11.
 - Approval of AMI Budget 2009-10.
 - Profit & Loss Account and Review of Expenditure Budget for the Quarter ended September 30, 2010.
 - Profit & Loss Account and Review of Expenditure Budget for the Half Year Ended December 31, 2010.
 - Audited Consolidated Financial Statements for the year ended June 30, 2010.
 - Ratification of 'On Account Payment' to the Federal Government.
 - September 30, 2010
 - December 31, 2010
 - March 31, 2011
 - Enhancement in the 'AJK Government Ways and Means Advance Limit'.
 - Rs. 5/- Banknote to cease as Legal Tender - Federal Cabinet's Decision.
 - SBP Expenditure Regulations - 2010.
 - Renewal of Agency agreement between the State Bank of Pakistan & the National Bank of Pakistan.
 - SBP Expenditure Regulations - 2011.
2. IT Related Matters
 - Supply, Installation & Integration and Maintenance of IT Equipment.
 - Maintenance Contract for Technical Support of Licensed Oracle Software for e-CIB and Oracle HR Modules.
 - Maintenance Contract of DR Hardware Installed at SBP BSC Hyderabad.
 - Renewal & additional procurement of GFI E-mail Security Software Licenses.
 - Annual Subscription of Databases from M/s. Haver Analytics, NYC, USA.
 - Approval of Award of contract for Maintenance & Support Services for two 'Extreme Networks Black Diamond 6808 Core LAN Switches'.
 - Procurement of services for Hardware and Software of RTGS System.
 - Award contract for Maintenance & Support Services for Network & Systems Hardware.
3. HR Related Matters
 - Update on appointments in the Bank.

- Implementation of Agreement with the Collective Bargaining Agent (CBA).
- Appointment of Mr. Muhammad Haroon Rasheed as Executive Director - Financial Resources Management (FRM) on regular basis.
- Encashment of leaves of deceased officers.
- Withdrawal of medical facilities for the parents of employees recruited on or after December 3, 2009.
- Reduction in notice period from three months to one month, Amendments in the SBP Staff Regulations -2005.
- Revision in Conveyance Charges and Daily Allowance (DA) Rates.
- Revision of Pension Commutation Policy.
- Approval of Pension increase to SBP Pensioners.
- Cessation of Promotion Process under Career Development Policy 2009-2010.

4. Other Matters

- Purchase of Land for Construction of SBP-BSC office at Gujranwala.
- Amendments in Regulation 2 and 3 (regarding Administrators, and Meeting of Administrators) of SBP Employees' Provident Fund Regulations (2005).
- Cash award to SBP Cricket Team on winning Quaid-e-Azam Trophy Division - II Tournament.
- Acquisition of land for construction of SBP-BSC Office at D .I. Khan.

B-2 Business Continuation Management

Business Continuity Management is a holistic risk management process that enables an organization to build resilient, enterprise-wide operations in order to minimize the disruption to people, processes, facilities, and technology in the event of an unforeseen disruption of critical operations. Through this capability, the organization builds an effective program that provides a planned response, recovery, and restoration mechanism.

The Business Continuity Plan (BCP) of the State Bank of Pakistan is to ensure continuity of critical functions of SBP and SBP BSC, and to prevent any major disruption in financial system of the country in the face of a catastrophe caused either by natural disaster, fire, civil strife, sabotage or an act of war. The size, complexity and geographically dispersed operations of SBP make the implementation of BCP challenging. SBP has attained a certain level of preparedness and readiness by establishing a Disaster Recovery (DR) Site and fully equipped Backup Sites for critical (time sensitive) and support functions. However, as a central bank, even this level of readiness has to be further improved to reach the required level of preparedness acceptable under the International Best Practices. The following initiatives have been undertaken to strengthen the Business Continuity Planning (BCP) function at SBP:

Re-alignment of BCP Function

Consequent upon restructuring in SBP, the function of Business Continuity Planning (BCP), earlier a part Business Support Services Department was transferred to Human Resource Department, and from there it was transferred to the Office of Corporate Secretary (OCS) in May, 2011.

Re composition of the BCP Committee

BCP Committee coordinates all aspects of BCP and is responsible for the oversight, initiation, planning, approval, testing and audit of the BCP. Following the restructuring at SBP, the BCP Committee was also reconstituted to ensure representation of all the critical areas of the Bank.

Establishment of dedicated Backup site for critical (time sensitive) departments

To cater to the specific needs of the critical (time sensitive) departments which were not available at the existing backup site, a separate backup site at a more secure and convenient location was made operative in February 2011. Substantive infrastructure, networking, IT and electrical works were carried out to make the backup site operative. The site was made 24x7 operational in June 2011 to ensure reliable performance of critical IT systems and applications. To identify and plug the gaps and to assess resource requirements, three combined BCP mock exercises of all critical (time sensitive) departments were successfully conducted at this Backup site.

IT Disaster Recovery (DR) Site

The main objective of establishing a IT DR Site is to provide continuity of SBP business operations in case of any disruption to the IT systems. The DR site provides replicated backups for critical banking and other IT applications. Major civil, electrical, networking and IT works were carried out according to the advice of the DR Consultant, appointed under the guidelines and selection criteria of the World Bank.

Updating of BCP Manuals

BCP manuals are maintained as a live document, changes are incorporated in the manuals on as and when necessary, based on feedback received from the critical departments and field offices. An exercise has been initiated to update the BCP manuals to reflect the changes necessitated as a result of the recent restructuring in the organization.

Updating of BCP Communication Cards

The BCP Communication cards developed to ensure that in the event of a disaster, where people are at times unable to act in a planned manner, they should know about the key people to contact. These cards also clearly elaborate on the tasks of various committees responsible for managing the situation under crisis, a brief on what-to-do and information on activation levels. The BCP Communication cards were updated incorporating changes due to restructuring.

Workshop on Business Continuity Management

To enhance the awareness about Business Continuity Planning among the departmental BCP Coordinators and to ensure that they understand the escalation process and are able to execute BCP procedures in case of a disaster, a workshop on Business Continuity Management was conducted. The purpose of the workshop was to equip the participants with the knowledge and skills of Business Continuity Planning and to ensure that they are familiar with the State Bank's BCP plan, understand the escalation process and are able to activate the recovery procedures developed in the BCP manual.

Connectivity of the Backup Sites of field offices

Realizing the need for availability of essential IT applications at the backup sites of field offices to perform critical functions in an automated environment, a pilot project has been initiated to develop a cost effective solution for providing connectivity for IT applications.

Testing and Rehearsal

The purpose of testing and rehearsal is to achieve organizational acceptance that the business continuity solution satisfies the organization's recovery requirements. Exercising the organization's Business Continuity Plan assesses its viability and ensures that the staff is familiar with the plans, understand the escalation process as well as able to activate the recovery strategies developed. To streamline the testing procedure and to facilitate the departments/field offices to conduct their tests and rehearsals smoothly, a BCP Annual Test Plan (ATP) was compiled. Accordingly, all the critical departments and field offices are carrying out their table top exercises, mock exercises and rehearsals as per the ATP.

B-3 Risk Based Auditing

The Internal Audit & Compliance Department (IA&CD) at State Bank of Pakistan provides independent, objective assurance and consulting services designed to add value, improve operations and help SBP in accomplishment of its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

The IA&CD conducts financial, operational, and information technology (IT) audits of SBP operations in this regard.

Presently four financial & operational audit teams and one IT audit team is conducting risk based internal auditing. A quality assurance (QA) unit in IA&CD undertakes the ongoing quality assurance of audit activities and ensures that these activities are conformed to IIA standards. In order to ensure compliance of outstanding audit recommendations previously agreed by Auditee Departments, a Compliance Division of IA&CD obtains status of audit recommendations on quarterly basis.

A Committee of Central Board on Audit is also overseeing functions of IA&CD.

During 2010-11 IA&CD has achieved following milestones:-

- IA&CD obtained top rating of ‘generally conforms’ to the IIA standards in previous year. In this year, the Department further strengthens the role of QA in regard to IIA standards updation & implementation in audit activities.
- Continuous updation was made in the Audit Universe (Database) of auditable business processes with the feedback of Auditee Departments. This was built by IA&CD using own developed risk scoring model based on IIA Research Foundation. Audit Plan of the Department for the FY12 was developed based on updated Audit Universe.
- Accomplished all audit assignments of the Audit Business Plan FY11 successfully. The IA&CD also carried out different special audit assignments on advice of Audit Committee and higher management of SBP. In addition to above, IA&CD reviewed Internal Audit Reports of SBP BSC and highlighted significant observations to Governor SBP.
- Enhancement was made in the Audit Management System Software by including Compliance module in it.
- In order to bring the concept of Self Risk Assessment by Business Departments, IA&CD is assisting different Departments of SBP for developing their risk registers. Further improvements were made in risk registers already developed by the Departments during audit assignments in FY11.

B-4 General ‘Counsel’s’ Office

The General Counsel’s Office

The General Counsel’s Office (GCO) is a full fledged department headed by a Chief Legal Advisor and is organized into 4 function-specific divisions in order to better meet the needs of the departments with respect to advice, litigation and drafting of regulations and contracts.

The department has been successful in promoting the concept of preventive law through much closer interaction with the client departments resulting in better understanding of their operational needs and bank wide targets. This has, in turn, fostered comfort of the client departments to discuss anticipated problems with a view to prevention. The numbers of references received by GCO are almost three thousand (3000) as on June 2011.

The department provides services to SBP BSC as well as NIBAF, in all legal matters. The cases are now processed much faster due to considerable streamlining of the documents provided by the department as a result of closer co-ordination with the GCO. Cases in which extensive research is required may, however, take longer time.

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

Prevent and Minimize Litigation

The GCO collects and analyzes the status of litigation cases on a frequent basis, including reasons for any adverse orders. This helps the department to review its own performance on regular basis and seek to eliminate the causes of adverse orders, as much as possible through its opinions and advice to the operating departments.

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

Drafting and Amendment of Legislation

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

- The State Bank of Pakistan ACT 1956.
- Draft Banking Act.
- State Bank of Pakistan Amendment Bill, 2010
- Amendments to the Banking Companies Ordinance, 1962.
- Corporate Rehabilitation Act
- Deposit Protection Act.
- Various other amendments in regulations

The department also compiles information based on international research for comparative studies and to support the rationale for the amendments proposed in the SBP Act, 1956 to the parliament and

standing committees. The various amendments already proposed have been approved at various stages and are under the legislative process.

Numerous contracts including highly technical contracts were vetted and issues were amicably resolved through negotiation and drafting of correspondence by the GCO.

The GCO looks forward to supporting the Bank's strategic plan 2010-2015 through close co-ordination with the client departments in strengthening the conducive and sound regulatory framework for financial institutions.

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