

A Chronology of Important Policy Announcements

A-1 Banking Policy & Supervision Group

Guidelines for Conversion of a Conventional Bank into an Islamic Bank: In order to promote Islamic banking and facilitate banks desirous of converting their entire banking operations from conventional to Islamic, SBP has developed detailed guidelines for conversion of a conventional bank into an Islamic bank. The guidelines include eligibility criteria, necessary measures / process including In-principle approval to start conversion process, conversion of existing conventional banking branches into Islamic banking and issuance of full-fledged Islamic Bank license (IBD Circular No.1 dated July 6, 2016).

Revised Prudential Regulations for Consumer Financing: In order to align the Prudential Regulations for consumer financing with changing business environment and international best practices; the SBP in consultation with the banks/DFIs, has revised the *Prudential Regulations for Consumer Financing* which prescribe minimum benchmarks in critical risk and operational areas and aimed at promoting consumer financing in sustainable and fair manner while ensuring the financial stability (BPRD Circular No.10 dated August 3, 2016).

Guidelines on Performance Evaluation of Board of Directors: To keep pace with the ever changing business environment and to align our regulatory regime with best international practices, “*Guidelines on Performance Evaluation of Board of Directors*” have been developed. These guidelines are meant to facilitate the Board of Directors to carry out their performance evaluation including individual board members and committees. The guidelines provide basic mechanism, techniques and approaches to be incorporated in performance evaluation model of each bank/DFI. Henceforth, the Board of Directors shall annually conduct their performance evaluation whereas the same should be undertaken by an external independent evaluator at least once in every three years. The chairman of the Board of Directors shall be responsible for the implementation of these guidelines with immediate effect (BPRD Circular No.11 dated August 22, 2016).

Guidelines for Training and Development of Bank Employees: In order to establish a continuous learning atmosphere and encourage the banks to enhance the overall capacity of their employees, banks are advised to implement the specific parameters / guidelines which include to prepare a comprehensive training and development policy embodied in the strategic plans led by the Human Resources Committee of the Board alongwith allocation of specific budget for training and development (BPRD Circular No.12 dated September 30, 2016).

Conduct Assessment Framework for Banks: To promote the concept of responsible banking, a Conduct Assessment Framework (CAF) effective from January 1, 2017 was introduced for self assessment by the banks. The banks are required to undertake their assessment as of 31st December on an annual basis. The CAF would develop a periodic, reliable, diagnostic and comparable mechanism which will help banks to deliver their commitment to *Fair Treatment of Consumers (FTC) Framework* in an optimum manner and manage their Conduct Risk (BC&CPD Circular No.3 dated November 4, 2016).

External Shari'ah Audit-Shari'ah Governance Framework for Islamic Banking Institutions (IBIs): The SBP after consultation with and feedback received from various stakeholders, has issued instructions on the External Shari'ah Audit which stipulates instruction regarding *Shari'ah* Board members of IBIs, capacity building of staff conducting *Shari'ah* audit, a Fit and Proper Criteria (FAPC) for *Shari'ah* scholars to be engaged for external *Shari'ah* audit of IBIs, review and provide opinion on bank's pool management practices & IT based system. As per instructions, *Shari'ah* Compliance Department of the IBI shall be responsible to verify distribution of profit and loss to the depositors prior to its disbursement. The Institute of Chartered Accountants of Pakistan (ICAP) may develop comprehensive guidelines to conduct external *Shari'ah* Audit in consultation with external Audit firms (IBD Circular Letter No.1 dated March 27, 2017).

Enterprise Technology Governance & Risk Management Framework for Financial Institutions: With a vision to provide baseline technology governance and risk management principles to Financial Institutions, SBP developed a framework on '*Enterprise Technology Governance & Risk Management in Financial Institutions*'. The framework which included guidelines on development of information/cyber security management framework, IT services delivery & operations management, acquisition & implementation of IT systems, business continuity & disaster recovery and IT audit (BPRD Circular No.5 dated May 30, 2017).

A-2 Development Finance Group

Soft Loans under Prime Minister's National Health Program (PMNHP): In order to facilitate the private hospitals enrolled under the *Prime Minister's National Health Program (PMNHP)*, a scheme of soft loan was launched for upgradation of their facilities including equipment purchase, operation theatre up-gradation and improvement in emergency services for provision of better treatment services to the poorest segments of population (IH&SMEFD Circular No. 5 dated July 15, 2016).

Prudential Regulations for Infrastructure Project Financing (IPF): With a view to promote infrastructure financing in Pakistan, the SBP issued Prudential Regulations for Infrastructure Project Financing containing regulations regarding credit appraisal, collateral arrangements, security package and regulatory compliance (IH&SMEFD Circular No. 6 dated December 30, 2016).

Revised Prudential Regulations for Housing Finance: With the aim to further facilitate the promotion of Housing Finance, Prudential Regulations (PRs) for Housing Finance have been revised in consultation with the stakeholders which include Regulations regarding Development of Financing Documents, Information Disclosure, Facilities to Related Persons, Types of Housing Finance, Debt Burden Ratio and Property Assessment (IH&SMEFD Circular No. 3 dated April 18, 2017).

A-3 Financial Market/Reserve Management Group

Amendment in the Foreign Exchange Regulation Act, 1947: The amendment in *Foreign Exchange Regulation Act (FERA), 1947* proposed by SBP has been passed by the Parliament and the related Notification stands issued on July 27, 2016. The amendment empowers SBP to impose monetary penalty on its regulatees for violation of foreign exchange rules/regulations or instructions issued there under. As a result of the above empowerment, SBP would be able to effectively administer the foreign exchange business of authorized dealers and exchange companies in Pakistan (FE circular letter No. 11 dated October 07, 2016).

Reduction of SLR for Islamic Banks/Branches: While resolving the issue of liquidity management being faced by Islamic banks, SBP reduced their SLR requirement. Effective from November 17, 2016, all Islamic banks/Islamic banking branches will maintain SLR of 14% (excluding CRR) of total demand liabilities (including time deposits with tenor of less than 1 year). Time liabilities (including time deposits with tenor of 1 year and above) will not require any SLR (DMMD circular No. 16, November 15, 2016).

Monthly Statements of Onshore/Offshore Foreign Currency Accounts and Reporting of Capital Account Transactions: To comply with latest guidelines of International Monetary Fund on Balance of Payment and International Investment Position, SBP has simplified the reporting and registration / acknowledgement procedures of foreign private loans along with segregation of China Pakistan Economic Corridor projects (CPEC). This regulation has enabled effective assessment of foreign exchange implications of CPEC related foreign loans for the country (EPD circular letter No.14 dated December 07, 2016).

Registration of Export of Securities against Foreign Direct Investment: In order to promote the culture of documented economy in the country with reference to export of securities (Issue/Transfer) to non-resident investors against their investment into Pakistan (FDI-Inward), SBP has enhanced the regulatory due diligence. The instructions will also facilitate real investors and discourage money launderers to channelize their funds as foreign investment in Pakistan (EPD circular letter No. 06 dated February 24, 2017).

A-4 Operations and Financial Resource Management Group

Public Awareness regarding Demonetization of Old Design and Bigger Size Banknotes: In order to enhance public awareness about demonetization and exchange of old design banknotes, SBP advised banks to display the last date of exchange of old design banknotes in their branches, as a slide show on ATM machines, on the homepage of their websites and to place banknote demonetization video on their websites and also play the video on the TV monitors in waiting areas of their branches (FD Circular letter No. 06 dated November 15, 2016).

Direct Membership of RTGS for Islamic Banking Branches of Conventional Banks: In order to improve the efficiency of the financial services of the Banking System and to enhance the outreach of electronic transfer of large value funds, SBP allowed direct membership of RTGS (PRISM) System to Islamic Banking Branches (IBBs) of Conventional Banks. The PRISM Participants having Islamic Banking Branches (IBBs) were allowed to establish a separate PRISM setup for their RTGS operations (PSD Circular No. 06 dated December 5, 2016).

Clearinghouse Membership for Central Directorate of National Savings (CDNS): To facilitate the investors of CDNS, it has been allowed direct membership of Clearinghouse (NIFT) with effect from January 12, 2017. The banks are advised to accept at their counters, the profit coupon / withdrawals slips pertaining to CDNS schemes and to properly endorse such instrument before submission to NIFT for clearing (PSD Circular No. 01 dated January 11, 2017).

Banknotes Packing Instructions: In order to ensure that the cash to be traded in the interbank market and/or surrendered to SBP under the SBP Currency Management Strategy is packed properly, uniformly and consistently, SBP issued instructions to banks regarding Preparation of Banknote Packets /bundles, transportation mechanism, Interbank Trading of Cash and deposit with SBP (FD Circular No. 02 dated March 10, 2017).