

A Chronology of Important Policy Announcements

A-1 Banking Policy & Supervision Group

Payment Systems Designation Framework: Payment Systems are one of the most critical financial market infrastructures that facilitate the transfer of money amongst financial institutions, whereas, Designated Payment Systems are usually Systemically Important Payment Systems (SIPS). Any deficiency in design or disruption in operations of SIPS can adversely impact the functioning of financial markets. Considering the need for the enhanced oversight of Payment Systems under the various provisions of Payment Systems & Electronic Funds Transfer Act, 2007 (PS&EFT), SBP issued Payment Systems Designation Framework. The framework will ensure smooth operations and better risk management of the Payment Systems by Payment Systems Operators (PSOs) and Payment Service Providers (PSPs) in Pakistan (PSD Circular No.02 dated July 25, 2017).

Guidelines on Compliance Risk Management: SBP has developed detailed guidelines to provide banking industry a uniform and systematic approach for identification, assessment and management of compliance risk. These guidelines aim to promote enabling 'compliance culture' in banks and strengthen the effectiveness of compliance function by adopting a structured and risk focused approach (BPRD Circular No. 07 dated August 9, 2017).

Guidelines for Clearing Operations: SBP issued the Guidelines under Section 3 of PS&EFT Act, 2007. The Guidelines cover major areas like roles and responsibilities of clearing house and its members, timelines to clear and settle various clearing batches, compensation policy for consumers, dispute resolution mechanism and centralized clearing for banks having online branches (PSD Circular No. 03 dated September 21, 2017).

Branchless Banking Regulations for promotion of Home Remittances: SBP with the objective to facilitate swift and cost effective inflows of Home Remittances through Branchless Banking (BB) channel and to increase the financial inclusion through enhanced usage in BB/ mobile wallets, introduced a new category of Home Remittance Account under the ambit of BB Regulations (BPRD Circular No. 09 dated December 22, 2017).

Guidelines on Call Center Management at Banks: In order to ensure consistency and uniformity in efficient management of call centers across the industry, SBP advised banks to develop a comprehensive policy framework and standard operating procedures on call center management (BC&CPD Circular No. 01 dated February 14, 2018).

New PRISM Operating Rules (PORs): Significant developments in PRISM operations have been made including 3rd party fund transfers, straight through processing and interbank fund transfer of home remittances after the issuance of PORs in 2009. Accordingly, SBP in consultation with all the stakeholders issued the revised PORs that are aligned with the international standards and provide directions related to PRISM business operations. The Rules provide detailed criteria with regard to PRISM participation access, settlement and finality, efficiency and effectiveness etc (PSD Circular No. 02 dated March 06, 2018).

Domestic Systemically Important Banks (D-SIBs) Framework: In line with emerging best practices, particularly the indicator based approach of Basel Committee of Banking Supervision (BCBS), SBP

developed a framework for designation and supervision of Domestic Systemically Important Banks (D-SIBs). The D-SIBs framework specifies the methodology for identification and designation of D-SIBs, enhanced regulatory regime and implementation guidelines. Under the framework, SBP would identify the sample of D-SIBs and announce designation by end June each year. The designated D-SIBs shall be required to meet both higher loss absorbency requirements and enhanced supervisory requirements. Remaining banks in the sample of D-SIBs would only meet the enhanced supervisory requirements (BPRD Circular No. 04 dated April 13, 2018).

Electronic Fund Transfers (EFT) Regulations: In order to set forth the minimum information of originator and beneficiary to be required in a payment message being used to initiate/ process an EFT. EFT Regulations have been issued under section 3(1) and section 26 of PS&EFT Act, 2007. An EFT facility enables customers to access their bank accounts electronically for fund transfers using channels like ATMs, internet and mobile banking (PSD Circular No. 03 dated May 09, 2018).

Guidelines for White Label ATM Operators: To facilitate the general public in accessing cash related services via ATMs, it has been decided to allow non-banking entities to offer White Label ATM services in the country. Accordingly, SBP issued Guidelines for White Label ATM Operators (WLAO) under the PS&EFT Act, 2007. These Guidelines will be applicable on prospective WLAOs who would be required to comply with the provisions of Rules for PSOs and PSPs issued vide PSD Circular No. 3 of 2014 dated October 23, 2014. These Guidelines highlight the objectives, scope, operational arrangements and set forth the regulatory requirements and consumer protection measures for non-banking entities desirous of entering into the business of White Label ATMs (PSD Circular No. 05 dated June 01, 2018).

A-2 Development Finance Group

Guidelines for Conversion of a Conventional Bank into an Islamic Bank: In order to promote Islamic banking and facilitate the banks desirous of converting their entire banking operations from conventional to Islamic, SBP issued detailed guidelines for conversion of a conventional bank into an Islamic bank. The guidelines include eligibility criteria, necessary measures and the process of conversion comprising three stages i.e., i) In-principle approval to start conversion process, ii) Conversion of existing conventional banking branches into Islamic banking branches and iii) Issuance of full-fledged Islamic Bank license (IBD Circular No. 01 dated July 6, 2017).

Refinance and Credit Guarantee Scheme for Women Entrepreneurs in Underserved Areas: In an effort to improve access to finance for women entrepreneurs in underserved areas of the country, SBP launched a refinance and credit guarantee scheme (IH&SMEFD Circular No. 05 dated August 25, 2017)

Green Banking Guidelines: SBP with a view to safeguarding against environmental risks emerging from banks and DFIs' businesses and operations, issued Green Banking Guidelines. The Guidelines deal with three areas including Risk Management, Business Facilitation and Own Impact Reduction (IH&SMEFD Circular No.08 dated October 9, 2017).

Prudential Regulations for Small and Medium Enterprises' Financing: With a view to further facilitate promotion of SME financing by providing enabling regulatory environment, Prudential Regulations for SME Financing have been revised to introduce SME specific Credit Policy with reduced general reserve requirement and turnaround time for Small Enterprises and Medium Enterprises (IH&SMEFD Circular No.09 dated December 22, 2017).

Islamic Long Term Financing Facility (ILTFF) for Plant and Machinery: In order to promote export oriented industries in the country under the 'Long Term Financing Facility for Plant and Machinery' through commercial banks and DFIs, SBP has been offering long term refinance facility. However, the said facility was not available through Islamic banking institutions (IBIs) in the absence of a Shariah compliant alternative. Accordingly, SBP introduced Mudarabah based ILTFF for plant and machinery through IBIs. SBP would make Mudarabah investment in general pool of IBIs participating in the scheme. Under ILTFF, exporters (including SMEs) can avail long term local currency financing through participating IBIs for purchase of imported or locally manufactured new plant and machinery for eligible sectors (IH&SMEFD Circular No. 01 dated February 14, 2018).

Shari'ah Governance Framework (SGF) for Islamic Banking Institutions: Shari'ah Governance Framework for IBIs was introduced by SBP with effect from July 01, 2015. However, in view of the industry practices and considering the feedback received from various quarters, the framework has been further refined (IBD Circular No. 01 dated June 07, 2018).

The Line of Credit Fund: In order to address funding constraints of the microfinance sector, SBP has set up a Line of Credit (LoC) Fund for Microfinance Banks (MFBs) and Non-Bank Microfinance Companies (NB-MFCs) for onward lending to the microfinance borrowers. In addition, SBP will provide funds to Non-Bank Finance Companies established for wholesale lending to MFBs and NB-MFCs (AC&MFD Circular No. 01 dated June 14, 2018).

Master Circular – Long Term Financing Facility (LTFF) for Plant & Machinery: In order to facilitate the stakeholders, SBP consolidated all the instructions under LTFF in the form of a master circular. In order to streamline the procedure for financing to new projects/ BMR of existing projects under LTFF, a standardized mechanism to monitor the required exports of existing as well as new projects has been prescribed therein (IH&SMEFD Circular No. 03 dated June 28, 2018).

Enhanced Training & Capacity Building Measures for Islamic Banking Institutions: In order to encourage IBIs to create a culture of continuous learning for development of knowledge and capacity in Islamic banking industry, SBP advised IBIs to undertake enhanced measures for training and capacity building. Accordingly, IBIs are required to ensure to maintain, update and enhance the knowledge, skills and capabilities of their employees/ staff at strategic, functional and operational levels. It is aimed that these measures will result in higher quality of service delivery and more awareness of Islamic banking amongst existing and potential customers (IBD Circular No. 02 dated June 29, 2018).

A-3 Financial Markets & Reserve Management Group

Open Market Operations: As part of the monetary policy implementation, SBP conducts open market operations (OMOs) to keep the money market overnight repo rate close to the SBP Target "Policy Rate". All schedule banks and primary dealers are allowed to participate in these OMOs; however, SBP may also conduct special OMOs in which only primary dealers will be eligible to participate. In order to facilitate the participating institutions, instructions issued by SBP from time to time on the subject have been consolidated in the form of a Master Circular (DMMD Circular No.12 dated July 03, 2017).

Master Circular-Maintenance of Statutory Cash Reserve Requirement: In order to facilitate banks to ensure meticulous compliance with the Cash Reserve Requirement (CRR), SBP consolidated the existing instructions in the form of a Master Circular (DMMD Circular No. 04 dated March 08, 2018).

Statutory Liquidity Requirement: Banks are required to maintain Statutory Liquidity Requirement (SLR) in cash, gold or unencumbered approved securities of their time and demand liabilities in Pakistan, as may be notified by the SBP from time to time. In order to facilitate the banks, instructions issued from time to time on the subject have been consolidated in the form of a Master Circular (DMMD Circular No. 05 dated March 08, 2018).

Auction of Government Securities: SBP conducts auction of Government Securities (Market Treasury Bills (MTBs) and Pakistan Investment Bonds (PIBs) as per instructions issued by SBP from time to time. In order to facilitate banks/ primary dealers and bring more clarity, these instructions have been consolidated in the form of a Master Circular (DMMD Circular No. 06 dated March 15, 2018).

Floating Rate Pakistan Investment Bonds: Government of Pakistan decided to issue PIBs with floating rate coupon under Pakistan Investment Bonds Rules, 2000. The coupon rate on the floating rate PIBs will be equal to the benchmark rate plus/ minus a margin decided in the auction. Benchmark rate would be the weighted average yield of the 6-month MTBs as determined in the latest successful 6-month MTBs auction held prior to the floating rate PIBs auction and/ or at the start of the coupon period. The coupon will be paid and reset semi-annually (DMMD Circular No. 09 dated May 07, 2018).

A-4 Financial Reserve Management Group

Online Collection of Government Taxes and Duties: The Government receipts and payments constitute a major part of the country's payment system which remained largely dependent on cash and paper based instruments. This not only hurts system wide efficiency but also cause hardship to the taxpayers in payment of taxes. SBP decided to allow the public to pay FBR taxes and duties (P2G) by using internet banking accounts or ATMs. Accordingly, SBP advised the banks to add FBR (Inland Revenue) and FBR (Customs) as billers in the Bill Payment System offered by 1-Link and develop necessary integration with 1-link by December 05, 2017. The online tax collection system would be made operational across the country by December 31, 2017 after completion of necessary testing (FD Circular No. 05 dated October 06, 2017).