

CURRENCY MANAGEMENT AND ACCOUNTS

A Task Force on Currency Management was established at the SBP BSC in order to overcome the problems confronting the general public with regard to the circulation of soiled notes in the market and to review the current practices related to issuance of fresh notes. In addition, this was done to provide a plan of action to remove problems related to collection, sorting and replacement of soiled notes. The composition of Task Force was as under:

Deputy Governor (Banking), State Bank of Pakistan	Chairman
Executive Director (FRM), State Bank of Pakistan	Member/Secretary
President, National Bank of Pakistan	Member
President, Habib Bank Limited	Member
President, Muslim Commercial Bank	Member
Managing Director SBP BSC (Bank)	Member
Chairman, Pakistan Security Printing Corporation	Member

TERMS OF REFERENCE

The terms of reference of the said Task Force are as under:

- To review the current procedure and practice related to currency management and suggest ways of simplifying procedures and improving turnaround time for issuance of fresh notes, for replacement of soiled notes and for cash handling at commercial banks.
- To suggest amendments in existing laws, rules and regulations, if necessary to simplify the procedure relating to replacement of soiled notes.
- To recommend ways of enhancing the durability of notes issued.
- To suggest new denomination of notes.

The Task Force held various meetings and finally the Deputy Governor/Chairman of the Task Force presented the recommendations of the Task Force to the Governor, on February 27, 2003.

RECOMMENDATIONS OF THE TASK FORCE

The following recommendations of the Task Force were approved:

- A committee headed by Executive Director, SBP, should look into the recommendations of the Task Force on simplification of procedure and immediately apply these according to the rules.
- At the same time, the recommendations on redefining of passing authority may also be examined by the above committee and implemented.
- The practice of stapling of Rs.5 & Rs.10 denomination notes is discontinued from the new indenting year (July, 2003). Once the general public is made aware that stapled currency

notes reduce the life span of currency notes, hopefully in one year, stapling of other currency notes may also be discontinued from July 2004.

- The standardization of re-issuable currency notes should be done immediately. All re-issuable notes should be standardized as the one that can be accepted for dispensing by an air pressure dispensing ATM. The respective offices should educate/train cash related staff on this subject.
- SBP BSC (Bank) offices should ensure that all commercial banks are supplied with fresh currency notes for ATMs. As ATMs are the best source of providing fresh currency notes to the general public, this would not only help in reducing soiled notes from circulation but it would also help create awareness among general public on modern techniques of withdrawing cash.
- Upon completion of deposit of soiled/cut currency notes in bulk to field offices/NBP Chests branches, all commercial banks are advised that only sorted, good quality currency notes are issued to the general public from April 1, 2003.
- All major commercial banks would start a public awareness campaign to help prolong the life span of currency notes, through a media adviser either from the platform of Pakistan Banks' Association (PBA) or by a consortium of major banks headed by the President of Habib Bank Limited.
- An expert group of the SBP & PSPC - headed by Executive Director, SBP, should examine the technical and financial viability of the printing of protective varnish coated currency notes.
- All commercial banks should, within a year, provide their branches in major cities with cash counting/ binding machines as non-stapling of notes will make it mandatory for banks to count each currency packet deposited with their branches.
- All SBP BSC (Bank) offices and five major commercial banks may equip their cash feeding branches/cash houses with heavy duty cash sorting machines to ensure supply of good quality currency notes to the general public. In this connection, representatives from the SBP BSC and major commercial banks have to carry out a cost-benefit analysis and explore the avenues of obtaining latest and economical heavy-duty cash sorting machines.
- The indenting policy and methodology should be revisited. Enhancement of indent for next year (July 2003-June 2004) in respect of Rs.5 denomination notes will not be necessary as the coins of Rs.5 are gradually replacing these notes. However, after taking into account the financial side of additional indenting, indent for Rs.10 in particular and other denomination notes in general may be increased keeping in view stocks and demand.

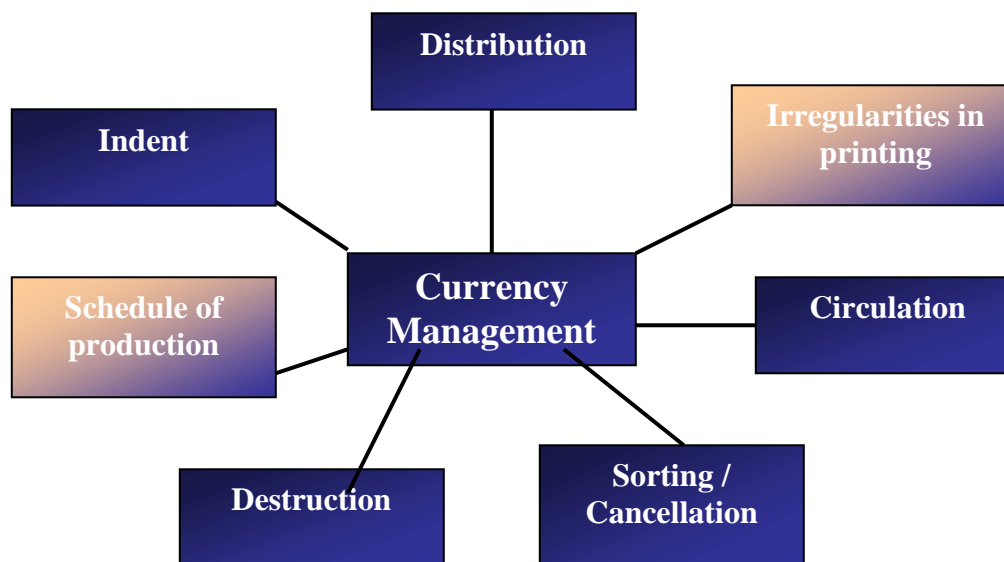
DETAILED IMPLEMENTATION STATUS

The recommendations made by the Task Force have been implemented to a large extent for the simplification of procedure, introduction of a clean note policy, inspection of commercial banks and

holding of meetings with stakeholders as well as conducting of press conferences, public campaign, awareness programs etc. The area wise details of implementation are illustrated in the following paragraphs.

PROCESS OF CURRENCY MANAGEMENT

Being the prime controller of currency in the country, the BSC has put in special efforts in reviewing currency procedures, practices, rules and regulations for various internal and external functionalities. A general process of currency management may be gleaned from the graphical presentation below:



To meet the emerging needs, changing circumstances and the new roles and responsibilities in the ambit of currency management, a number of steps have been undertaken since the inception of the BSC. These include:

4.1 CLEAN NOTE POLICY

A three-pronged strategy has been designed and implemented by the BSC as part of its Clean Note Policy. This includes simplification of various procedures, on-site examination, automation and a public awareness program.

4.1.1 In House Arrangements

Simplification of procedure for Quick Disposal of Soiled and Defective Currency Notes:

With a view to simplify the currency procedure for making payment against clearly payable defective notes, claim notes and to ensure quick disposal of these categories of notes, following measures have been implemented:

Change in Definition of Claim Notes and Realignment of Policy

- a) The definition of Claim Notes has been modified and now notes are treated as **Clearly Payable Defective Notes** instead of claim notes:

Partially cut/damaged or slightly burnt notes (provided 3/4th portion thereof be intact). The definition of clearly payable defective Notes has been modified and the following categories of Notes are treated as “Soiled Notes” instead of clearly payable defective Notes.

“Bank Notes divided in to two pieces either horizontally or vertically but are in full.”

- b) Policy for “delegation of authority for passing of clearly payable defective notes” has been realigned and now procedure for this purpose is as follows:
- Rs.5 denomination notes have been precluded from the process of being passed for payment.
 - Rs.10 and Rs.50 denomination notes are passed by Assistant Treasury Officer, duly authorized by the respective Chief Manager.
 - Rs.100 denomination note are passed jointly by the Assistant Treasury Officer and Treasury Officer, duly authorized by the respective Chief Manager.
 - Rs.500, Rs.1000 denomination notes are passed jointly by a Treasury Officer and OG-2, duly authorized by the respective Chief Manager.
- c) Policy for “**delegation of authority for passing of claim notes**” has been realigned and now procedure for this purpose is as follows:
- Rs.5 denomination notes are being passed directly and not processed through claims.
 - Rs.10 denomination notes are being passed by Senior Assistant Currency Officer, duly authorized by the respective Chief Manager.
 - Rs.50 denomination notes are being passed jointly by the Treasury Officer and Sr. Assistant Currency Officer, duly authorized by the respective Chief Manager.
 - Rs.100 denomination notes are being passed jointly by the Treasury Officer and Deputy Chief Manager or Assistant Chief Manager (Cash), duly authorized by the respective Chief Manager.
 - Rs.500, Rs.1000 denomination notes are passed jointly by an Authorized Treasury Officer and Currency Officer.
 - The claim notes of Rs.100 kept by banks under guarantee are being passed by D.C.M/A.C.M. and those of Rs.500 and Rs.1000 by the C. O. / Prescribed Officer.
- d) Claim notes of all denominations tendered by commercial banks are being accepted without going into the claim process. In the same manner notes under guarantee are accepted and credit is afforded to them immediately while recovery against rejection or shortage of notes, if any, is being made from the respective banks subsequently. For passing of these notes, special set of officers has been deputed at each office.
- e) In order to eliminate difficulties faced by the general public in getting the defective/claim notes passed/exchanged and also to cut down labour and processing time involved, the

ceiling of total value of Rs.500 under one window operation has been enhanced to the total value of Rs.1,000 (Rs.10 to Rs.100 denominations notes) per person per case.

- f) The Chest/ Sub-Chests maintained with National Bank of Pakistan branches are authorized to accept claim notes from commercial banks and deposit them with our field offices under whose jurisdiction they fall.
- g) The banks are given the facility to deposit their excess balances with the SBP BSC (Bank), offices on simple undertaking and credit afforded immediately to the concerned Bank.
- h) While quantitative and qualitative checks and responsibility for fresh notes supplied by Pakistan Security Printing Corporation rests with that organization, the notes are recounted at SBP BSC field offices as a safeguard. Currently these notes are counted on a percentage basis as follows, as against a 100% count.
 - Notes of Rs.5 and Rs.10 denominations - 2%
 - Notes of Rs.50 denomination - 25%
 - Notes of Rs.100 denomination - 50%
 - Notes of Rs.500 and Rs.1000 denominations - 100%

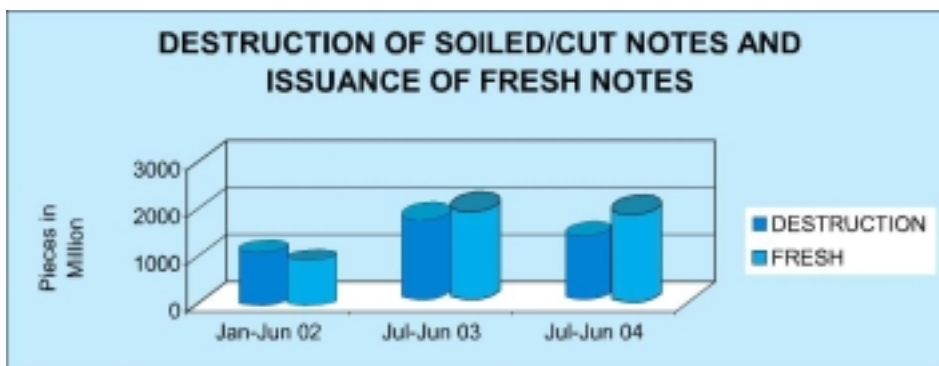
4.1.2 Verification/Destruction of Soiled/Cut Notes of Rs.5, Rs.10 and Rs.100 Denomination

In order to ensure speedy disposal of accumulated balances of Cut/Soiled notes, following procedure is being adopted.

1. The cut notes of Rs.5 and Rs.10 denominations are destroyed through special procedure along with the soiled notes at the same rate i.e. 15,000 pieces to be counted and 85,000 as relaxed portion.
2. The quota of verification of cancelled notes of Rs.100 denomination is fixed at 24,000 pieces. The rate of verification of the said notes is reduced from 100% to 50% as in the case of Rs.50 denomination.
3. Full cut notes in two pieces (whether vertically or horizontally) have been taken out from the category of defective notes and treated as soiled notes and processed accordingly.

(Pieces in Million)

PERIOD	DESTRUCTION	FRESH NOTES ISSUED
January 2002 -June, 2002	1074.601	853.643
July 2002 – June, 2003	1870.851	2,022.098
July 2003 – June, 2004	1471.912	1,962.639



4.1.3 Linking of N.B.P. Chests/Sub-Chests With SBP BSC (Bank)

Keeping in view the strategic position and specific needs of the area, 35 Chests/Sub-Chests are de-linked from the Lahore office and linked with the Multan office for replenishment and withdrawal purposes, which was hampering the image of the bank. The statistics are presented below:

- **Linking and De-linking of N.B.P. Chests/Sub-Chests with the Bank.**

Different Chests/Sub-Chests were de-linked/linked with field offices while considering the geographical proximity and remittance procedure.

4.2 MONITORING OF CASH OPERATIONS

It was observed that soiled, cut and mutilated currency notes were in circulation in a large quantity, which was causing much inconvenience to the general public. The Bank was receiving direct complaints and criticism through letters/articles in print media. In order to minimize such complaints, a new mechanism for monitoring issuance of currency notes by commercial banks was introduced. Monitoring teams have been formed at each office of the SBP BSC. The team monitors the sorting of notes and supply of good quality notes to the general public.

- As for inspection of N.B.P. Chests/Sub-Chests branches, different methodology was evolved whereby comprehensive inspections were conducted within a short span of time. All the Chests/Sub-Chests working beyond the holding capacity were brought within the prescribed limit.
- A total of 5,702 branches have been identified for inspection. The target is to inspect each branch at least once in two months.

4.2.1 Salient Features of The Monitoring System

- The closing cash balances with bank branches are being maintained in the under noted Performa on a daily basis:

Date	Denomination	Sorted Pieces Re-issuable Soiled Defective	Unsorted pieces	Coins

- Special teams have been constituted at the SBP BSC Field Offices to pay surprise visits to banks branches periodically to examine the quality of currency notes being issued by the banks to their clients and general public and to check the level of implementation of instructions from their counters.
- Banks having less than 50 branches in Pakistan have been allowed to develop their own mechanism and are exempted from maintaining minimum daily sorted balance as they have access to the SBP BSC (Bank) offices for replenishment of their cash.
- Banks having more than 50 branches are required to maintain one-day's sorted re-issuable balances, keeping in view their daily average payment requirement.

Further, the following branches are exempted from the condition of maintaining minimum daily balance:

- Branches making an average daily payment of less than Rs.0.50 million.
- Branches having immediate access to re-issuable good quality currency notes. (Such as withdrawal facility from the SBP BSC local Offices/ NBP Chest).
- Team members record their observations on the condition of the cash available on payment counters/in vaults and get the same authenticated/validated by the Branch Manager/ In-charge of the branch concerned.
- The Chest branches have been advised to accept duly sorted currency note balances from commercial banks in their jurisdiction in the normal course of their business operations.

Banks have been allowed to make payments from their balances received over the counters during the day's business as per the following procedure:

- a. Banks branches are required to maintain a detailed log for the denomination of notes received in heavy tender (Rs.100 to Rs.1,000 denomination notes) which need to be sorted over the counters immediately upon receipt. For branches making an average payment of Rs.0.50 million, in addition to the normal tellers, banks have to put extra effort for sorting on the spot
- b. Bank branches are required to maintain a detailed log for the denomination of notes received over the counter with time and thereafter, the time for sorting is also being noted, along with the time for making the same payment to the customer.
- c. Notes for the denomination of Rs.5 to Rs.50 are being sorted out at the branches or cash houses as per the convenience of the bank.
- d. Affixing of "Sorted" stamp on currency notes. As a matter of policy, it is decided that once packets of notes are sorted, the sorting bank/branch shall clearly identify/stamp on the wrapper of the packet as "**SORTED**" along with the name of the bank branch and date of sorting. Instructions are issued to all the banks to establish sorting houses.
- e. A circular regarding schedule of penalties/fines on cash Management has been issued by the Accounts Department, State Bank of Pakistan. As per Circular the Scale of penalties/fines are applicable w.e.f. July 01, 2004 in respect of various categories of violation of rules and regulations as pointed out by the monitoring teams of SBP BSC (Bank) during the on-site examination of commercial bank branches.

4.3 ISSUANCE OF FRESH NOTES NON-STAPLING OF RS.5 & RS.10 NOTES

A large number of branches of commercial banks are designated in different areas for the purpose of issuance of fresh notes to the general public. These branches are provided fresh notes in sufficient quantity.

- The series and numbers of the fresh notes issued to the designated branches are also noted down with the intention of monitoring their end use/proper distribution and to check their use by currency brokers and garland makers.
- With a view to successfully implementing the above plan, the Bank has, in the first phase, instructed the Pakistan Security Printing Corporation (PSPC) to stop stapling wads of Rs.5 and Rs.10 denomination notes.
- A comprehensive circular was also sent to commercial banks and all field offices of the Bank to discontinue the process of stapling bank notes of Rs.5 and Rs.10 denomination and instead issue these notes in the paper banding form.
- A standard press release was also issued in leading newspapers for public awareness. It is planned to gradually eliminate the practice of stapling bank notes of other denominations. Instead, the practice of using paper bands to bundle notes will be used.
- Banks have been instructed to arrange for necessary banding equipment for this purpose. They have also been asked to provide a detailed plan for procurement of this equipment for 2004.

4.4 AUTOMATION

To successfully implement this plan and to achieve the desired objective of this policy, efforts are being made to automate various functions in connection with currency management.

- Note counting/coin counting machines have been provided to all offices. At present, forty two note counting machines are available in our field offices.
- Shredding machines are being provided to speed up the process of destruction of bank notes.
- Note banding machines are being provided to all the field offices. At present one machine has been approved for each of the offices.
- Note sorting machines are also being arranged.
- Directives have been issued to all commercial banks to use machines for banding together bank notes of smaller denominations and arrange purchase of necessary equipment in this regard.

4.5 ON-SITE INSPECTION

To ensure availability of fresh and good currency notes to the general public, monitoring teams conduct surprise visits to check the vaults of commercial banks and their procedure for maintaining sorted balance.

- The holding limit of NBP Chest/ Sub-Chests is monitored and funds are managed accordingly to the nearest Chest/ Sub-Chest or field office.
- 5,702 bank branches are identified for inspection. It was decided to inspect these branches at least once in two months to ensure early compliance.

- Offices have been divided into three categories: large, medium, and small, keeping in view the number of branches under the jurisdiction of each office, as well as the quantum of work. Special teams have also been constituted at BSC field offices to pay surprise visits to bank branches periodically and to examine the quality of currency notes being issued by the banks to their clients and general public. This will help in checking the level of implementation of instructions by their counters.

4.5.1 PUBLIC AWARENESS PROGRAMME

In collaboration with commercial banks, Bank has started a public awareness campaign:

- A standard press release about the sanctity of currency notes was issued. Copies of press clipping and special pamphlets have also been displayed at prominent places in commercial banks/field offices of the Bank.
- Regular press conferences/ briefings were held by the Managing Director SBP BSC (Bank) on this issue. This was widely appreciated as it explained the whole spirit of the policy and efforts by the Bank to implement this. Special pamphlets prepared in this regard were distributed on the occasion.
- “Disfiguring the portrait of the Quaid.” A press release was issued in this regard to educate the general public. Disfigured notes are treated as illegal tender.
- Chief Managers have been directed to visit main cities areas/trade centers in person to interact with the general public and inform them about the steps taken by the Bank with regards to bank notes under its Clean Note Policy. They have been advised to hold monthly meetings with Trader/Merchant Associations to educate them about the policies of the Bank.
- Bank has also arranged special training programs for bank cashiers about the different categories of notes as a part of its Public Awareness Program.

4.7 IMPOSITION OF PENALTIES

- In order to ensure proper implementation of the Clean Note Policy and to achieve desired results, it has been decided to impose penalties on errant banks.
- A Master Circular containing all the relevant instructions that have so far been issued on the subject of the Clean Note Policy has been collated and sent to commercial banks.
- Another Circular containing the Schedule/Scale of penalty for each type of irregularity has also been sent to commercial banks wherein it has been categorically stated that penalties would be imposed from July, 2004.
- A set of standard annexure has been designed for the purpose of conducting on-site examination and reporting of irregularities.
- The establishment of a separate cell for cash monitoring at all the offices has been agreed upon. This cell will work under the supervision of the CM concerned.
- A standard procedure has been devised for the working of the cell.
- It has been decided to impart necessary training to all the dealing officials at the offices.

4.8 DEVELOPMENTS / IMPROVEMENTS MADE IN ACCOUNTS MANAGEMENT SYSTEM

Various developments have been made in the accounting procedures practiced at the SBP Banking Services Corporation (Bank) since its inception. These developments have improved efficiency tremendously. Areas where improvements have been made are as under.

4.8.1 Implementation of New Chart of Accounts

Implementation of a new chart of accounts, compatible with the International Accounting Standards was carried out in an efficient way. The transition from old to new accounts was a large scale and complex task, keeping in view the geographical diversity of our organization. Yet the transition was completed smoothly and professionally. The new chart of accounts has allowed compatibility with IAS in our accounting system as well as categorization of financial information under GAAP, real time consolidation and facilitation in exercising proper controls. The ability to generate MIS from different dimensions has also been added.

4.8.2 Improved Efficiency with the Introduction of Computerized Solutions

Through assistance of Oracle ERP, module reports that were previously generated manually and took a lot of time are now being generated promptly and efficiently. These reports include:

- Daily Activity Report (Clean Cash Book).
- Daily Trial Balance.
- Daily Statement of Affairs.
- Weekly Statement of Affairs.
- General Ledger.
- Financial Statement for the Half Year December, 2003.
- Subsidiary Ledgers, Income & Expenditure.

4.8.3 Preparation of the Financial Statements for the Half Year - December 2003

Each year, External Auditors/Chartered Accountants prepare financial statements of the Bank. Efforts are made to complete this technical assignment by utilizing the services and resources available within the Accounts department. In this regard, we have achieved our goal and prepared the financial Statement of the SBP BSC (Bank) for the Half Year ended, December 2003 on our own, in addition to preparing the Financial Statement for the financial year 2002-2003.

4.9 IMPROVED MANAGEMENT OF GOVERNMENT ACCOUNTS

The new system of reporting of CBR receipts/payments has been introduced and is now completely implemented as per instructions of the SBP. As a result, the time for submission of reports to the concerned government departments has been reduced by a considerable level.

4.9.1 Reporting of CBR Receipts/Payments

- Previously it took three days for balancing the weekly government accounts, but now the same accounts are prepared on the very next day and submitted to the Accounts Section.

- Similarly, the monthly government accounts were prepared and sent to the concerned office of the Government/AG/AGPR/Railway/SBP by 25th of each month. Now, the same monthly balances are sent by 20th of each month.

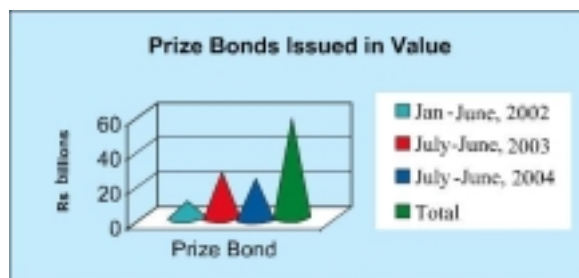
4.9.2 Prize Bonds, SSC and DSC Schemes

In order to mobilize savings in the economy, the Bank is providing agency services to the government for the sale of various public debt instruments like Prize Bonds and National Savings Certificates. The amount of actual sales credited to government under these schemes in past two and half years is presented below:

(Rs. in Billion)

PERIOD	PRIZE BOND
January, 2002-June, 2002	8.26
July, 2002-June, 2003	26.84
July, 2003-June, 2004	22.84
Total	57.94

Source: Accounts Department HOK.



(Rs. in Billion)

DESCRIPTION (From Jan, 2002 to June, 2004)	SSC	DSC
Sales	111.9963	17.6214
Encashment	59.8099	5.9087
Net Impact (Sales – Encashment)	52.1864	11.7127
Total Net (SSC + DSC)		63.8891

As part of the efforts to improve monitoring of the scheme, Tri-Color Machines have been installed at all offices of the Bank to avoid tampering of date & place of issue of National Prize Bonds (all denominations). This is a step forward in reducing frauds and forgeries related to the Prize Bonds.