



## QUARTER HIGHLIGHTS [April – June], 2020



# BASEL III – revised disclosure template

Pillar 3 of the Basel Framework lays out a comprehensive set of public disclosure requirements that seek to provide market participants with sufficient information to assess the material risks and capital adequacy of individual banks.

As part of Basel III reforms, the Basel Committee on Banking Supervision (BCBS) finalized its Basel III related disclosure requirements in December 2018. SBP subsequently drafted revised disclosure requirements with an enhanced scope on which PBA feedback was sought.

The revised disclosure templates aim at providing a more comprehensive set of information to all the relevant stakeholders enabling them to evaluate the material risks, capital and liquidity adequacy of individual banks on periodical basis.

The draft instructions and the disclosure formats were given a final review by PBA and its members and sent to SBP in June 2020 for further action.

**SECTORAL  
MATTERS  
in  
FOCUS**

## International Financial Reporting Standard – IFRS 9

The PBA Sub Committee on Accounting and Taxation held detailed discussions on the 'IFRS 9 application instructions', following which PBA sent a consolidated feedback to the State Bank of Pakistan. In its suggestions, PBA has also advised a deferment of the roll out date of IFRS 9 from January 2021 to January 2022.

In October of 2019, SBP had advised banks/DFIs/MFBs to start a parallel run of IFRS 9 and had issued the 'IFRS 9 application instructions' for this purpose. These instructions are meant to ensure a smooth, robust and consistent implementation of IFRS 9 across the banking sector and to achieve standardized practices with respect to the expected credit loss

accounting.

SBP's expectations from Financial Institutions (FIs) is that they exercise considerable judgment and/or elect to use simplifications and other practical expedients permitted under the Standard.

The 'instructions' which will be used by the FIs for all of their financial reporting, are meant only for parallel run purposes and are not to be considered as final guidelines for the purpose of the IFRS 9 application.



# AWARENESS

## Campaigns

April to June 2020

### Precautions for bank customers against Covid19

Effective March 25, 2020, PBA started a public notice/awareness and precautions campaign for bank customers, concerning COVID 19, in the print media.

The Public Notice/Ad campaign ran for two weeks in newspapers with national coverage followed by placements in regional newspapers.

#### Awareness and Precautions for Bank Customers Against COVID-19

To combat the spread of Corona virus and to minimize person to person interaction at banking facilities in Pakistan, Pakistan Banks' Association (PBA) suggests the following precautionary measures for bank customers;

- Minimize branch visits and use Alternate Delivery Channels (ADCs) such as; ATMs, Internet Banking, Mobile Banking etc.
- Use of ADC's is recommended, as bank notes may pose a potential risk in spreading the virus.
- Please wash your hands or use hand sanitizers before and after dealing with bank branch staff and using ATMs and refrain from shaking hands with bank employees.
- Do not visit a bank facility if you have any symptoms of fever and cough.

For your information, your bank's call centres/helplines are available 24/7 for instant customer support.



Pakistan Banks' Association  
www.pakistanbanks.org

A public service message by Pakistan Banks' Association.

A copy of the print Ad placed in newspapers.

### Payroll financing

To mitigate the financial impact of the Covid 19 outbreak and to ease cash flow constraints of employers, the State Bank of Pakistan (SBP) introduced a temporary Refinance Scheme for Payment of Wages and Salaries to the Workers and Employees of Business concerns.

At SBP's request, PBA started an awareness campaign which aimed at spreading the message to businesses to avail the facility on time and, in turn, make timely payments of salaries and wages to their employees and for businesses to avoid layoffs and sustain continued employment.

\*\*\*\*\*

### To increase awareness for bank customers on how to safeguard against fraud

To alert bank customers against potential fraud and to inform them about precautionary measures to take to prevent identity theft, while using a credit/debit card or during online banking, PBA launched a TV campaign to highlight the precautionary dos and don'ts'. The advertisement ran for two weeks in April through May (2020) and then in June through July (2020).

[http://pakistanbanks.org/pbapublications/Dos\\_and\\_Donts.html](http://pakistanbanks.org/pbapublications/Dos_and_Donts.html)

(link to TVC)

#### Attention Bank Clients

The State Bank of Pakistan has introduced Refinance Schemes to Support Employment and Prevent Layoff of Workers.

The Schemes are available at 3% end user rate for borrowers on Active Tax Payer List and 5% for others, covering up to three months' wage bill.

The Schemes are available till 30th June 2020. Details of these Schemes are available on the following link:  
<http://www.sbp.org.pk/smfed/circulars/2020/CL7.htm>

Our member banks are actively involved in passing the benefits of these Schemes to clients.

Bank Clients may approach their concerned branches to submit their applications.



Pakistan Banks' Association  
www.pakistanbanks.org

This is a public service message by PBA

The TV advertisement features the PBA logo at the top, followed by the text 'اپنے بینک اکاؤنٹ کو فراڈ سے بچائیں' (Protect your bank account from fraud). Below this is a red warning triangle icon. A list of items to avoid is shown with red 'X' marks: Personal Information, Pin Code, Account Number, and Card Number. At the bottom, it says 'کسی کو نہیں بتائیں' (Do not tell anyone).

# SECTORAL matters (...cont)

April – June 2020

## 1. Draft Regulatory Framework for Business-to-Consumer (B2C) E-Commerce Exports

Emerging trends amongst consumers globally have witnessed a major shift from the traditional market place to E-commerce in the recent past. In view of this, a need has been indicated by SBP to provide a regulatory framework to facilitate cross border B2C E-Commerce Exports.

In order to develop a framework, which not only addresses the market needs but also takes due care of regulatory objectives, SBP engaged relevant stakeholders including the Ministry of Commerce, Pakistan Customs, E-commerce Exporters, banks and courier companies and following a consultative process, prepared the draft regulatory framework to facilitate B2C E-Commerce Exports from Pakistan.

As requested by SBP, PBA reviewed the draft framework with inputs from member banks and has forwarded its recommendations to the State Bank of Pakistan.

## 2. Data pertaining to the Financial Statements of the Borrowers

Concerns were raised by some members of PBA's Risk Sub Committee on the initial reporting requirements on the process of, 'Data compilation pertaining to the Financial Statements of the Borrowers'. The key matters raised included;

- a) Extension in Timelines for provision of data to SBP.
- b) Non-availability of Management Accounts:
- c) Financials of SE Borrowers

These points were taken up with SBP by PBA in a video conference and were subsequently agreed upon by SBP.

## 3. Clarification from SBP on screening of Walk in / Occasional Customers

An issue was raised regarding difficulty in compliance of identification/ verification as well as screening requirements of a Walk-in-customer under SBP's AML/ CFT Regulations. The matter was examined at PBA and after consultations with the PBA Working Group on Compliance, PBA has sought clarification from SBP and their response is awaited.

## 4. Pensioners Biometric Verification

A letter from the Controller General of Accounts (CGA) GoP, sent to SBP, requested SBP to work with commercial banks to keep the bank charges at a minimum for the bi-annual biometric verification of pensioners.

SBP had requested PBA to go through the decisions of the Cabinet Division on the SoPs and provide its feedback on preparedness of banks for the same.

The PBA feedback was sent to SBP in June.

## 5. Implementation of Compliance Risk Management (CRM)

The updated status of implementation as reported by the banks, showed that banks had either fully complied or largely complied with all the requirements of the CRM Guidelines, however the following three areas were reported as partially complied:

- Automated Compliance System
- Formulations of RCSAs
- Development of KRIs

Based on this feedback, PBA sought extension in the deadline from SBP and they had granted extension for Automated Compliance System till March 31, 2020 and for RCSAs and KRIs till April 30, 2020. However, the global pandemic situation and the resulting lockdown changed the overall situation.

PBA has now sent in a request to SBP to allow the banks a further extension in timeline till December 31, 2020, for the targets set for March & April, 2020. SBP response is awaited.

## 6. Islamic Banking Institutions

- a) **Introduction of Floor Facility for IBIs for deployment of surplus funds.**  
PBA has requested SBP to introduce floor facility for IBIs for deployment of surplus funds.
- b) **Introduction of Islamic alternative to Discount Window or Ceiling Facility to IBI based on the models similar to Refinance Scheme.**  
Keeping in view the global economic crisis due to Covid 19 and the potential pressure on bank withdrawals, PBA – subsequent to the request of its Islamic Banking Sub Committee – has suggested to SBP to consider an Islamic finance facility for IBIs based on the models similar to Re-finance schemes under *Mudarabah*.  
SBP feedback is awaited for both the above suggestions.
- c) **Draft Guidelines for Management of *Shari'ah* Non-Compliance Risk (SNCR).**  
*Shari'ah* Non-Compliance is one of the unique risks faced by Islamic Banking Institutions (IBIs).  
To provide the necessary guidance to IBIs to deal with this peculiar risk, SBP has developed guidelines for SNCR management. These have been reviewed by the PBA Islamic Banking Sub Committee.  
PBA feedback / comments were sent to SBP in June.

## 7. Pakistan Single Window (PSW) Project - Business Process Reengineering (BPR) of Electronic Import Form (EIF) and Electronic Form-E (EFE)

To facilitate the business community in cross border trade, FBR has initiated the PSW project, a platform that allows parties involved in trade and transport to lodge standardized information and documents using a single-entry point.  
SBP's EPD engaged with FBR and selected banks to develop a Business Process Re-engineering (BPR) for EFE/EIF into the proposed PSW system.  
PBA's input was sought by SBP to facilitate the review process of the BPR upon which PBA conferred with its members and a consolidated review has been sent to SBP.

## 8. Netting of Financial Contracts Bill, 2020

SBP, in coordination with SECP, has drafted a Netting of Financial Contracts Bill (the 'draft bill') with the purpose of removing any uncertainty in enforcing netting rights which would be applicable in case of, a termination event; insolvency proceedings; limiting the powers of the liquidators to prevent any cherry-picking of qualified financial contracts/transactions which fall under the ambit of netting provisions and will allow financial collateral arrangement under such netting rights.  
PBA was requested by SBP to review the draft bill and PBA's Sub Committee for Treasury & Capital Markets reviewed the details and sent the following suggestions to SBP on May 21, 2020.

- (a) It is key that the Netting Law take precedence over the Insolvency law in order to ensure the feasibility of the Act;
- (b) It was originally intended for agreements that if they qualify as QFC (*Qualified Financial Contract*), they would be enforceable.
- (c) The act should apply to agreements whenever entered, some of the revisions, limit this applicability as per the suggested comments;
- (d) The Act includes limitations in relation to QFC that are not regulated by the State Bank or the Commission.
- (e) Deletion of the margining requirements is highly problematic due to global margining criterion and should be re-inserted.

A response from SBP is awaited.

## 9. Regulatory relief to bank customers impacted by Covid 19

- **SBP Relief Package for Customers availing Consumer Finance Facilities from the banks**  
PBA Consumer Sub Committee proposed an extension of this package as there were challenges in reaching out to customers within the defined timeline. PBA's recommendations were sent to SBP in June and a response is awaited.
- **Relief Package by SBP on Rate Relief and Resetting/Re-pricing of the Mark-up**  
At SBP's request, parameters were developed and recommended by PBA and after consultation with SBP, the member banks were requested to offer a one-time relief on re-setting and re-pricing of mark-up to its customers.
- **Proposed Standardized Templates and Covenants/conditions for assessing requests for deferrals & rescheduling/restructuring**  
To address this concern, PBA developed a baseline standardized template and covenants/conditions which were sent to the members for their guidance.
- **Guidelines for implementation of regulatory relief - Islamic banking institutions**  
After considering the input of the PBA Islamic banking, Sub Committee on the draft guidelines, SBP issued set guidelines which are also available on the SBP website.

## 10. Relaxations in Internal Audit required due to lockdown

The PBA, Internal Audit Working Group (IAWG), has prepared a document consisting of guidance to the Internal Audit Functions to respond to the impact on banking activities due to the Covid-19 situation and to maintain a common working platform across the industry. The document provides a high level guidance to Internal Audit Functions in the banking sector in Pakistan on:

- a) Impact of COVID-19 on Internal Audit
- b) Emerging Risks
- c) Guidance for Internal Audit Functions

These are only for guidance purposes for PBA members.

## 11. Cyber security Framework for Financial Institutions

The PBA Cyber security forum's feedback on the SBP draft document on, '*Cyber security framework for Financial Institutions*', has been sent to SBP.

The framework aims to provide an enabling regulatory environment for Financial Institutes (FIs) to manage cyber security risks associated with their use of technology and shall serve as SBP's baseline requirements for all FIs' technological infrastructure.

## 12. Information under Sections 165 and 165A of the Income Tax Ordinance 2001

PBA was informed by FBR that it would be requiring information, on a fixed format, on Sections 165 and 165A of the Income Tax Ordinance 2001.

PBA input was required on this matter. Based on the input from members of the PBA Accounting and Taxation Sub Committees and two video conferences with FBR seniors, a letter was subsequently sent to FBR on May 21, 2020.

## 13. Implementation of CRM Guidelines – risk based approach

Based on the concerns of the PBA Compliance, Working Group, SBP clarified, that for testing of controls the bank will follow risk based approach. It was further clarified that risk based approach will be followed for all reviews.

**14. Framework for Managing Risk of Trade Based Money Laundering and Terrorist Financing**

Based on PBA's request made to SBP on behalf of its members, SBP has extended the implementation date from April 30, 2020 to September 30, 2020.

**15. PBA Federal Budget Proposals 2020-21**

As per past practice, this year as well, PBA, after seeking input from its members, has sent the budget proposals to Chairperson, FBR and Governor, SBP.

**16. Tax Neutrality for Islamic Banking**

The PBA Islamic Banking Sub Committee comments have been forwarded to SBP by PBA.

**17. Transfer of non-performing assets to corporate restructuring companies – draft SBP circular**

The comments received from some of the member banks were consolidated by PBA and were sent to State Bank of Pakistan.

**18. Draft personal data protection Bill**

SBP had forwarded the draft Bill on the subject prepared by the Ministry of Information Technology for PBA's comments and feedback.

The Bill aims at protecting unauthorized use and leakage of personal data and creates necessary discipline/code of conduct for usage/retention and sharing of personal data.

The Bill was examined at the PBA office as well as by PBA's Legal banking Sub Committee and the Cyber Security Forum.

Thereafter the consolidated comments were sent to SBP on April 30, 2020.

**19. Secured Transactions Act (STA)**

To bring all types of Secured creditors under the ambit of STA, the State Bank of Pakistan, in consultation with the World Bank, initiated amendments in STA which were also shared with PBA for comments.

Accordingly, feedback from member banks was sought and reviewed by PBA and the comments sent to SBP.

# matters in the PIPELINE

- Large Cash Deposit
- "Framework for Managing Risks of Trade Based Money Laundering and Terrorist Financing"
- Development of Database of proscribed persons and PEPs
- Wire Transfer / Fund Transfer (Amendments made in AML/CFT Regulations)
- Definition of PEP / Strengthening of PEP Identification Process
- Standardization of Housing Financing Agreements and/ or other Legal Documents for Conventional Housing Finance & Microfinance Banks
- Draft Islamic Foreign Exchange Master Agreement & Draft Conventional Foreign Exchange Master Agreement
- Investment of liquid funds by Microfinance Banks (MFBs)

## Meetings of the Sub Committees/Forums/ Working Groups

---

The following meetings took place in the past quarter at PBA.

### PBA Executive Committee

1. April 6, 2020
  2. April 13, 2020
- \*\*\*

### PBA Sub-Committees

#### Accounting & Taxation;

1. May 12, 2020
2. May 14, 2020
3. June 15, 2020

#### Risk (Credit & all other Risks under Basel);

1. June 08, 2020

#### Consumer Banking;

1. May 12, 2020
2. June 30, 2020

#### Treasury & Capital Market

1. June 3, 2020
- \*\*\*

### PBA Forums & Working Groups

#### PBA Cyber Security

1. June 12, 2020

#### Internal Audit (with SBP officials)

- 1 May 8, 2020
- 2 May 6, 2020

#### Compliance Risk Management

1. June 24, 2020

The Coordination meeting between the **PBA, Executive Committee and the Governor, SBP and his team** was held on May 5, 2020.