

September, 2020

- **The SBP-PBA coordination meeting between the Governor, SBP and his senior leadership team and the PBA, Executive Committee (EC)**

The meeting was held on August 24, 2020 and following were the main points of discussion:

- ♦ **Interim report on Enhancing Digitalization in Banking Industry;**
A high level feedback was given by PBA's EC and it was agreed that a joint committee will finalize and present it to SBP, following which a draft circular will be sent to PBA for feedback.

- ♦ **Other matters discussed;**

Centralized KYC (Know Your Customer) facility;
Low Cost Housing;
Pakistan Single Window (PSW) project; End to end digitalization of FX cases;

- ♦ **Rozgar Scheme and Temporary Economic Relief Facility (TERF).**
SBP requested PBA to ask its members to utilize these facilities to the maximum during their availability period.
- ♦ **PBA EC took up, once again, its suggestions regarding the penalty regime.**
- ♦ **PBA's EC informed the Governor about the work being done on;**
Netting of financial contracts; FX agreements (for conventional and Islamic banking); Certification and training of traders of banks.

- **Coupon Stripping for Market Development**

SBP and Debt Policy & Coordination Office (MOF), are evaluating Coupon Stripping as a way to creating short-term instruments to promote market depth and plan to issue longer tenor

- **PBA Executive Committee meeting**

Held on August 13, 2020, the following main matters were discussed;

- ♦ **PBA's budget/plan for 2020-2021 was approved.**
- ♦ **The proposal to create a new PBA website was presented and approved. *The construction of the site is in progress and a launch is expected soon!***
- ♦ **Priority items were outlined for discussion with the Governor, SBP, for the coordination meeting scheduled for August 24, 2020.**

- ♦ **Felicitations were recorded for EC's former member, Sima Kamil, on her appointment as Deputy Governor, SBP.**

- ♦ **Mr Ahmer Hasan, Chairman, Treasury & Capital Markets Sub Committee, updated the EC about some of the initiatives in progress at the Sub Committee.**

- **Work from home - recommended / suggested guidelines from PBA Cyber Security Forum**

With the work environment disturbed due to Covid 19, and some bank personnel required to work from home, the PBA Cyber Security Forum took the initiative and developed the 'Work From Home Guidelines' for the benefit of PBA's members.

These guidelines – mainly to cover cyber security risks – are baseline recommended measures.

The Guidelines were circulated to all member banks, subject to the policies & procedures of member banks and approval by their respective management and board.

Sectoral Matters

Concluded August 31, 2020

Floating Rate Bonds (FRBs), instead of short-term maturity papers.

SBP requested PBA's feedback on the above proposal and PBA's Treasury & Capital Markets Sub Committee was asked to look into the following aspects:

- ♦ Assessment about need of coupon stripping for our market (pros and cons)
- ♦ Demand in the market by both, banks and non-bank investors
- ♦ Possible mechanism for coupon stripping like eligible bonds, optional for the investor or otherwise, minimum lot size, taxation, pricing etc.

PBA sent its feedback to SBP early in August.

▪ **Corporate Insurance Agents Regulations 2020**

With the objective of strengthening the regulatory regime for corporate insurance agents including Bancassurance, the current draft of the Corporate Insurance Agents Regulations 2020, aims at improving the overall sales process and disclosure requirements. Major reforms through the draft regulations comprise transparent, after-sale call back confirmation system; provisions of policy documents in language of policy holders' choice; promotion of digitalization; introduction of automatic commission claw-back provision and minimum premium allocation rates in addition to rationalization of commission rates.

SECP had requested PBA for comments on the draft regulations and PBA's Consumer banking Sub Committee subsequently reviewed it. The consolidated feedback was sent to SECP in early August.

The draft regulations upon finalization will replace 'Bancassurance Regulations, 2015' and 'SRC Directives for Corporate Insurance Agents (excluding banks) and Technology – based distribution channels 2017.'

▪ **Clarification for filing of security interest in secured transactions registry (STR) under the Financial Institutions (Secured Transactions) act 2016**

All Commercial Banks, Microfinance banks (MFBs) and Development Finance Institutions (DFIs) were advised in April 2020, by SBP, to register their security interest against movable assets of unincorporated entities for future, as well as for

▪ **Reduction of write-off reflection period in eCIB report**

The State Bank of Pakistan is considering reducing the reflection period of write-off from 15 to 10 years in the Creditworthiness Report of Corporate borrowers in its eCIB system and had requested PBA for feedback / comments.

The PBA Risk Sub Committee reviewed the matter and suggested that the 15-year write-off period should be retained to allow banks to make the most informed lending decisions possible. The recommendations have been submitted to SBP.

▪ **Revised Draft Foreclosures Laws**

Following mandatory targets for banks to finance the housing sector, SBP has initiated the strengthening of the recovery and foreclosure laws through draft amendments in FIRO and draft Housing Finance Act. PBA was asked to review both these documents and provide input to SBP which was done in July, after which changes were made in both the draft laws by SBP's legal consultants.

PBA was again asked to go over the amended draft laws and PBA's members' feedback on the amendments was conveyed to SBP in which the proposed changes made in the FIRO were agreed upon.

▪ **Tax neutrality for Islamic banking**

SBP and GoP have worked on promoting Islamic Banking through banking provisions and resolutions regarding taxation issues and by granting a neutral tax regime for Islamic banking institutions (IBIs).

Earlier this year, PBA was requested by SBP to provide information regarding any outstanding taxation issues faced by IBIs following which PBA's Islamic Banking Sub Committee provided its feedback.

In August, SBP responded with comments on PBA's previous feedback which were again reviewed and discussed with tax consultants of IBIs and the PBA, Islamic Banking Sub Committee, and the feedback was sent on August 21, 2020, to SBP.

prior security interests under section 73 of the Secured Transactions Act 2016.

PBA's member banks asked for the issue to be raised with SBP since most of the moveable assets are either owned by banks or are within the control of banks. Hence, registration under STA cannot add any value. Consolidating the comments of member banks, PBA has requested SBP to provide guidance on moveable assets required to be registered under STA.

Info sessions

Held in August 2020

Third session with FBR for 'Data sharing document'

Following two rounds of feedback and information sessions held between PBA and FBR on the 'Technical Specification document for data sharing', a third session was requested by the IT and senior finance/taxation representatives of PBA's member banks.

The Technical Specification document, as created by FBR, is meant to facilitate banks in understanding the details of integration and data sharing between FBR and the banks as required under Section 165-165A.

The third session of feedback and information review was held on August 19, 2020, to further debate the rationale of the points raised by PBA members in the earlier sessions.

After deliberations, the document was shared with all FIs.

loopholes

IBOR Transition & Transaction Management – Webinar

To understand the implications of IBOR (Interbank Offered Rates) discontinuance and to discuss the background of this big change, a webinar was organized by PBA on August 7, 2020, via Zoom for its members. SBP representatives were also invited to attend.

Consultants M/S Fieldfisher conducted the webinar from London, focusing on fundamental considerations to be made during this transition, including;

- Why are IBORs being discontinued
- What are the alternative benchmarks being proposed to replace IBORs
- How are alternative benchmarks different from IBORs and what are the economic implications
- What are the legal and documentation implications for existing transactions
- What are the implications for central banks and corporates
- And other issues

Almost 80 participants attended this webinar.

1. Large Cash Deposit
2. "Framework for Managing Risks of Trade Based Money Laundering and Terrorist Financing".
3. Development of Database of proscribed persons and PEPs.
4. End to End Digitalization of FX Cases.
5. Standardization of Housing Financing Agreements and/ or other Legal Documents for Conventional Housing Finance & Microfinance Banks.
6. Draft Islamic Foreign Exchange Master Agreement & Draft Conventional Foreign Exchange Master Agreement.
7. Filing of Security Interest in Secured Transactions Registry, under STA 2016.
8. Institutional Risk Assessment Framework (IRAF) - suggested discontinuation in view of other self-assessments on risks and controls.

Matters

in the pipeline

Ending August 31, 2020

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