



## Sectoral matters

November 1 – 30, 2021

Activities/Meetings/Information Sessions

### Visit of Mr Shaukat Tarin, Advisor to the PM on Finance & Revenue, to PBA office

Matters pertaining to the economy in general and the banking sector in particular were discussed and Mr Tarin emphasized the need for the banks to aggressively grow their deposit base so that the saving rate of the country increases and moves closer to those in countries similar to Pakistan. On this, PBA pointed out the continuing wide disparity between the lower tax rates on profit/dividends from investment in shares listed on stock market and in units of mutual funds, and the tax rates on profit from bank deposits classified as 'profit on debt'. Mr Tarin understood this disparity.



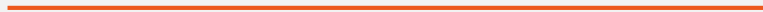
*Members unable to attend in person, joined the meeting via Zoom*

**M**r Shaukat Tarin, Advisor to the Prime Minister on Finance and Revenue, visited the office of Pakistan Banks' Association (PBA) in Karachi, on Friday, November 26, 2021 and met its Executive Committee. Mr. Muhammad Aurangzeb, Chairman, PBA, and Mr. Tawfiq Hussain, CEO & Secretary General, PBA, welcomed the Advisor to PBA. Mr. Tarin lauded the role of PBA, saying that it has become an increasingly effective and vibrant body.

Apart from the need to diversify lending, both geographically and sectorally, Mr Tarin asked the banks to also focus on product innovation. He specifically asked the Development Financial Institutions to develop and float long term instruments for depositors, which they can on-lend for project finance. Talking about Kamyab Pakistan Program, Mr Tarin asked for more banks to participate in the second bidding process. On Roshan Digital Account, Mr Tarin emphasized the need for banks to also push this offering in markets other than UAE.

***In the picture below from left to right – Mr Syed Amir Ali, CEO, BankIslam; Mr Arif Usmani, CEO, NBP; Mr Bahauddin Khan, CEO, Pak Oman Investment Company; Mr Shehzad Dada, CEO, UBL; Mr Shaukat Tarin, Advisor to the Prime Minister on Finance and Revenue; Mr Tawfiq Hussain, CEO/SG, PBA; Mr Masood Raza, Secretary, PBA; Mr Mohtasham Ashai, President, Soneri Bank; Mr Ahmed Bozai, COO, Citibank, Pakistan.***

In response to PBA's concern on the huge disparity in tax rates on banks and the tax rate on corporate sector and the continuation of Super Tax on banks, which stands withdrawn from the corporate sector, Mr Tarin understood and agreed with the PBA concern and said that the Government will look into the matter.





## IMF delegation's visit to PBA



Ms Teresa Daban Sanchez, the outgoing IMF Resident Representative to Pakistan, and her successor, Ester Perez Ruiz, visited the Pakistan Banks' Association to meet with the PBA Executive Committee members. Matters pertaining to the economy and the banking sector were discussed.

## PBA Meeting with FBR's Business Integration Committee

On FBR's request, a zoom meeting was held on November 24, 2021, between FBR's Business Integration Committee (BIC) and the Executive Committee of PBA, to discuss the digitalization of payments under Section 21(1a) of ITO 2001. Compliance with this section and banks' readiness on this were discussed along with ideas for the way forward.

Mr M. Aurangzeb, Chairman, and Mr Tawfiq Hussain, CEO/SG, led the discussion from PBA's side.



## Draft instructions for employees of government corporate entities for housing finance under G-MSS

In order to facilitate the employees of Public and Private Sector entities, in availing housing finance under government mark-up subsidy scheme, SBP has decided to allow alternative arrangements for the banks to secure their financing risk instead of following housing finance Prudential regulations (PRs). The draft instructions on bilateral arrangements of banks with government/corporate employers for

## Revised PRs for Corporate Commercial Banking:

SBP had sent the revised Prudential Regulations (PRs) for Corporate / Commercial Banking (Risk Management and Operations), requesting feedback/comments of the banking industry.

The revised PRs were drafted after seeking suggestions from all banks / DFIs in October 2020 as well as the changes made to the PRs through various Circular/Circular Letters from 2015 to 2021.

Comments of the PBA, Risk Sub Committee were sought, particularly on the points having a material impact on the banking industry.

PBA's consolidated response was sent to SBP on November, 22, 2021.

## PBA's feedback on the draft report on World Bank Assessment on Insolvency and Creditor/Debtor Rights

PBA was requested by SBP to share its members' feedback on the draft report. The members mostly found the report to be comprehensive in addressing laws related to Insolvency and Creditor / Debtor rights, however, some comments given by members focused on Enforcement of Security Rights over Immovable Assets; Financial Institutions

disbursement of housing finance to their employees were shared with PBA for feedback and legal consultation to be done on behalf of banks.

The input received from banks and PBA's legal consultants – M/s MTC – was sent to SBP on November 5, 2021.

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## **IFRS 9 - Proposed recommendations**

The 'parallel run' of IFRS 9 is being carried out by banks/DFIs/MFBs since July 2020 as per SBP's circular issued in October 2019. SBP's 'IFRS 9 application instructions' were issued at the time to ensure 'a smooth, robust and consistent implementation of IFRS 9 in the banking industry'.

The aim of the parallel run of the 'application instructions' was also to achieve standardized practices with respect to the expected credit loss accounting and to draw out SBP's expectations from the Financial Institutions.

With the final implementation of the IFRS-9 coming up in 2022, a list of proposed recommendations – based on the parallel run undertaken by banks – were prepared by PBA's Accounting & Taxation Sub Committee and submitted to SBP in November 2021 for consideration.

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Secured Transaction Act (STA 2016) and Legislative Framework Assessment. The feedback was consolidated and submitted by PBA on November 12, 2021.

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## **4th Working Group Meeting on Environmental and Social Risk Management (ESRM)**

The State Bank of Pakistan (SBP) and International Finance Corporation (IFC) have formulated a Steering Committee and Technical Working Group under Pakistan Sustainable Banking Project which focuses on providing regulatory guidance and improving banks' knowledge and capacity by arranging training programs on Environmental and Green Banking Guidelines (GBGs) and increase the number of intermediaries to provide Environmental and Social Governance (ESG) training to banks.

The Steering Committee and technical Working Group includes representatives from SBP, IFC and PBA and its third meeting was held on October 26, 2021, to review the progress and discuss the draft Implementation Manual for the GBGs.

As a member of the Working Group, PBA attended the 4th meeting of the ESRM where the main topics discussed, included;

- a. Implementation Manual to be an ESRM guideline with a time-bound action plan.

- b. Operationalizing the ESRM reporting template.

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# Matters in the pipeline



Ending  
November 30,  
2021

- 1. E-KYC Platform for the Banking Industry:** Following approval of Proof of Concept by the PBA, EC, the vendor is currently conducting PoC with three banks and a final decision of selecting the vendor will be made after completion and success of PoC.
- 2. Draft Islamic Foreign Exchange [FX] Master Agreement & Draft Conventional Foreign Exchange [FX] Master Agreement:** The final draft of the Islamic FX Master Agreement is being reviewed by PBA's legal team, Mandviwalla & Zafar (M&Z), while the final draft of the Conventional FX Master Agreement has already been reviewed by M&Z. Once legal review of both drafts is concluded and concurred by PBA's Treasury and Capital Markets Sub Committee and its Executive Committee, it will be shared with SBP.
- 3. Fraudulent Transaction Dispute Handling (FTDH):** PBA's Fraud Prevention Forum and SBP team are conducting meetings to discuss Issues & Gaps in FTDH and its SOPs.
- 4. National Financial Inclusion Program (NFLP) - Non-Usage/In-Active Bank Accounts:** The PBA, Project Team formed to address the matter of inactive bank accounts raised by SBP, has shortlisted project proposals from two consultants to carry out an in-depth survey/research to understand the key reasons for inactivity in customers' bank accounts. After internal review, the project proposals will go to the PBA EC for final approval.
- 5. Provision of LACIP Act, ADR:** PBA was requested by SBP to work-out and prepare an implementation plan for banks regarding Loans for Agricultural, Commercial and Industrial Purposes (LACIP) and Alternate Dispute Resolution (ADR). An awareness session on ADR has been conducted and one for LACIP is planned in the coming months. Representatives of the Boards of Revenue of KPK, AJK and BAL have been requested to give a date for the awareness session.
- 6. Master Circular on Sale of Third Party Products:** PBA's Consumer Sub Committee has been requested by PBA Members to approach SBP regarding extension in the implementation timeline of this Circular from December 30, 2021 to January 15, 2022.

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