



PBA quarterly e-newsletter

April 1 to June 30, 2022

Federal Budget and Tax Proposals: 2022- 23



As per PBA's past practice, the suggestions for the Federal Budget were obtained from members and were deliberated at the PBA office by a smaller group of taxation heads and members of PBA's Accounting & Taxation Sub Committee. These were then further reviewed by the PBA EC and concurred by them for onward submission to FBR/SBP.

In his letter to the Chairman, FBR, the CEO PBA reiterated the high tax rate of 35% on the banking industry in Pakistan, the highest in the region and much higher as compared to other business sectors in Pakistan. He also highlighted the Super Tax at 4%, which is only applicable on banks, while other sectors of the economy including financial institutions and insurance companies were exempted from it since 2020.



Follow up to the Finance Bill: *meetings with Dr Miftah Ismail, Federal Minister for Finance and Revenue*

Following the release of the Federal Budget 2022-2023, PBA has been actively lobbying against the issue of unfair taxation for the banking industry.

Several meetings have taken place to address the situation, including two meetings held with Dr. Miftah Ismail, the Federal Minister for Finance and Revenue, on June 20 in Karachi and June 24, 2022 in which Chairman FBR and his senior team also participated. Subsequent to the meetings, the CEO/SG PBA, has also formally written to the Federal Minister for Finance and Revenue, again pointing out the inequitable burden of taxation borne by the banking industry which includes the tax rate of 35% and the Super Tax of additional 4% retained in the draft 2022-2023 Finance Bill which was presented to the Parliament.

The retrospective tax applied for Poverty Alleviation and the revised tax applicable retrospectively to Income from Government Securities was also brought to the Finance Minister's notice as being fundamentally unfair, particularly as banks have already closed their Tax Year 2022 (Accounting Year 2021).

Even with continuing requests, the final Federal Budget approved in the National Assembly on June 29, 2022, did not take into account the 4% Super Tax already being paid by banks. Hence, with the Super Tax of 10% imposed on certain industries including banks through the Finance Bill 2022-23, the all-in tax rate for banks has gone up to 49%.

The PBA office is in the process of again writing to the Federal Minister for Finance and Revenue, to consider the 4% already being paid by banks as Super Tax and instead of 10%, the increased Super Tax amount should be 6% for banks, bringing the all in tax rate for banks to 45% instead of 49%.

IFRS 9 Implementation

On behalf of the banking sector, PBA has proposed to SBP that the implementation of IFRS 9 for the tax year 2022 may be deferred for banks till the next quarter.

As per SBP's circular dated July 05, 2021, IFRS 9 was made applicable on banks with effect from January 1, 2022. The circular had also issued draft guidelines for the parallel runs which were to be finalized, based on PBA input and results of the parallel runs, which was provided by PBA in November 2021. In January 2022, the SBP had circulated for comments from PBA, draft amendments to the format for financial statements, including the disclosures. These were provided by PBA to SBP on January 28, 2022.

Subsequent to a telephonic discussion with Dr Inayat Hussain, Deputy Governor, SBP, Mr Tawfiq Husain, CEO/SG PBA, has sent him PBA's proposal via email on June 28, 2022, reminding the DG, SBP that the banking sector is awaiting final implementation guidelines, along with the final format of the financial statements.

In the email communication, the CEO, PBA has reiterated that since the final guidelines and formats are still awaited, it will not be possible for the banking sector to incorporate the requirements of IFRS 9 in the June 2022 financial statements.

Pointing out that in the absence of an extension/further communication from the SBP, the audit firms may qualify the upcoming financial statements.

The CEO PBA has requested the Deputy Governor to issue a circular extending the application date of IFRS 9 to after the June 30, 2022 financial statements.



PBA highlights role of banks as executing agents & collaborating partners

A Press Release (PR) highlighting the banking industry's positive contribution towards the economy in several aspects was published in print media on June 3, 2022. PBA's CEO/SG was quoted on several points in which he highlighted banks' interventions in successfully addressing the challenges brought on by COVID 19 Pandemic; the roll out of the Roshan Digital Accounts and the lending in priority sectors of low cost housing, agriculture finance and SME financing.



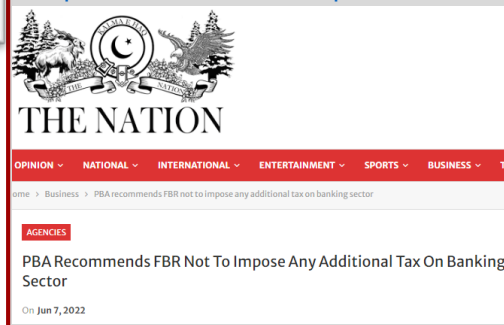
The full PR may be accessed here;
<https://pakistanbanks.org.pk/case-study/pba-highlights-effective-role-of-banks-as-executing-agents-collaborating-partners-print/>

PBA PR: Opposing levy of additional tax on the banking sector

PBA had circulated a press release on June 6, 2022 in which the unfair amount of taxes paid by the banking industry was highlighted with the recommendation to FBR to not levy any extra taxes. PBA CEO/SG emphasized that the banking sector is playing a vital role in the economic development of the country and is supporting major initiatives of the government, the Federal Board of Revenue (FBR) and the State Bank of Pakistan (SBP).

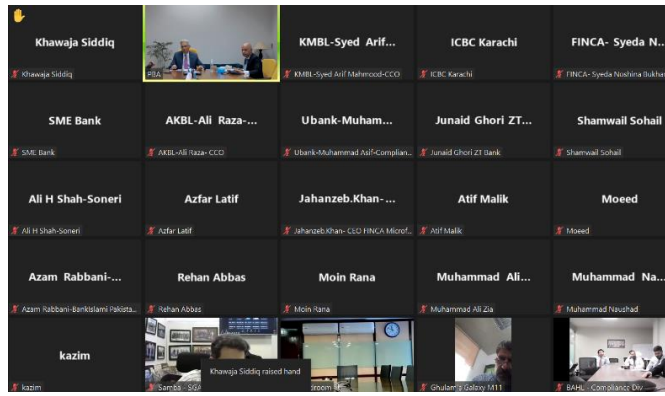
The PBA CEO also pointed out that the payment of Super Tax by banks is discriminatory, as not only was the rate initially 1% higher for the banking sector as compared to the non-banking sectors but following the amendment in 2020, only the banking sector had been singled out for levy of Super Tax.

The full PR may be accessed here;
<https://pakistanbanks.org.pk/case-study/pba-pr-for-fbr-not-to-impose-additional-tax-print/>




Shared eKYC project

The e-KYC Working Group (WG) has completed its technical evaluation of the vendors and is currently in the process of conducting financial negotiations. Based on the Working Group's IT experts'



Shared eKYC Project Presentation to all member banks on April 27, 2022

Concept



A technological enabled platform through which participating banks can fetch KYC data of existing customers through Blockchain technology for providing account/ service at another place, institution and point of time.

Significance

- KYC once performed by any bank, can be used by other Fis thus minimizing cost & effort in customer onboarding
- Help prevent risks of ML/TF.
- Standardization of KYC data collection and compliance across industry

technical evaluation and overall financial proposal's assessment, the e-KYC WG's recommendations on the final selection of the vendor will be presented to the PBA EC for approval.

On the request and concern of PBA's members on the proposed amendment to the BCO by way of a private

PBA's action on Amendment to Section 83 of the Banking Companies Ordinance (BCO)



member bill in the Senate, PBA CEO, Mr Tawfiq Hussain has written a letter to the Deputy Governor, SBP, Dr. Inayat Hussain, requesting SBP to take this matter up with the Government to oppose this amendment, which will be seriously detrimental to the banking industry. The proposed bill aims to amend Section 83 through the Banking Companies (Amendment) Act, 2021, recently introduced in the Senate of Pakistan and proposes to criminalize any refusal/ denial of opening a bank account; issuance of letter of credit; bank guarantee or any other financial facility to Politically Exposed Persons (PEPs). The penalty to be imposed for such a denial/refusal is suggested to be imprisonment up to one year or fine of up to one hundred thousand rupees or both. The PBA EC upon review of members' request further obtained a legal opinion on the proposed bill following which the letter was written to the Deputy Governor, SBP with a copy of the legal opinion as given by M/s. Mandviwalla & Zafar.

MTM losses on AFS securities

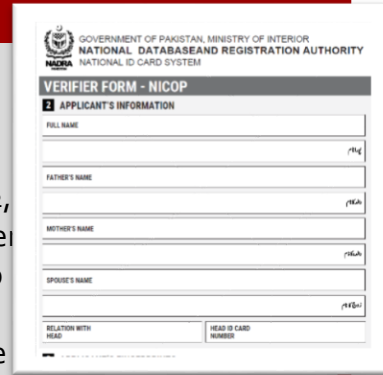
PBA's Accounting and Taxation Sub Committee has reviewed the matter and has determined that imminent capital constraints need to be considered vis a vis the recognition of MTM losses on AFS securities.

In view of the imminent capital constraints and on the recommendation of PBA's Accounting and Taxation Sub Committee, PBA has requested SBP to consider allowing the banks to recognise, in a phased manner, the current deficit on revaluation of Federal Government Securities (local and foreign currency) for the purpose of calculation of capital adequacy.

CEO/SG PBA has also written to Dr. Inayat Hussain, Deputy Governor,, SBP, pointing out that the above mentioned factors will offer some relief, which will provide some space for the banks to continue their lending activity to government, private and public sectors while remaining sufficiently above the regulatory limits of capital ratios.

Availability of Gender in NADRA Verisys

With the discussion held on June 09, 2022, in the PBA Gender Banking Sub Committee meeting, the 2022, requested SBP to engage with NADRA for the purpose of including, 'Gender' as an identity added in NADRA Biometric as well as NADRA VeriSys to maintain the uniformity in Data / Information. As per SBP instructions issued in March 2022, all commercial banks operating in Pakistan are required to update the, 'Gender' field against the CNIC Numbers of their customers. The instructions were issued subsequent to the regulatory initiative for enhancing women's presence in the formal, financial account ownership and as such, reliable data was required to determine participation by men, women and transgender.



The image shows a 'VERIFIER FORM - NICOP' from the National Database and Registration Authority (NADRA). The form is titled 'GOVERNMENT OF PAKISTAN, MINISTRY OF INTERIOR, NATIONAL DATABASE AND REGISTRATION AUTHORITY, NATIONAL ID CARD SYSTEM'. It is divided into sections for 'APPLICANT'S INFORMATION' and 'RELATION WITH HEAD'. The 'APPLICANT'S INFORMATION' section includes fields for 'FULL NAME', 'FATHER'S NAME', 'MOTHER'S NAME', and 'SPONSOR'S NAME', each with a small 'NIC' icon to its right. The 'RELATION WITH HEAD' section includes a field for 'HEAD ID CARD NUMBER'.

Green Banking and Environmental & Social Risk Management

To better understand the concepts of Green Banking (GB) and Environmental and Social Risk Management (ESRM), two successive awareness sessions were held in April and June, 2022, arranged by PBA – through the courtesy of IFC – for the benefit of its members. ESRM for Pakistan's Financial Sector is an initiative of the International Finance Corporation (IFC) for which a Steering Committee (SC) and a Working Group (WG) has been providing regulatory guidance since early 2021. The WG includes representatives from IFC and PBA along with SBP and is committed towards promoting a sustainable business model in Pakistan. Several meetings of the Steering Committee have been held which were also attended by Ms. Sima Kamil, Deputy Governor- DFS, FI, & IT. Mr Tawfiq Hussain represents PBA at this Steering Committee. PBA

had also provided its feedback/ recommendations earlier on the 'Mandatory Instructions on Environmental Risk Management' as well as the 'Manual for Green Banking Facilitation in Pakistan' which have both been jointly developed by IFC and SBP.

The awareness sessions were organized on April 21 and June 21, 2022 by PBA so that Members may get clarity between the differences and commonalities in Green Banking and ESRM.

7th ESRM Working Group Meeting, held on June 21, 2022 to discuss the implementation manual and M&E template



Awareness session organized by PBA on April 21, 2022. Mr Yaseen Anwar, Senior Policy Advisor to the IFC Sustainable Banking Project, was the moderator at this session where a Q&A segment was included. PBA CEO/SG, Mr Tawfiq Hussain welcomed the participants and other attendees which were present online, including Mr Syed Samar Hasnain, Executive Director, Development Finance, SBP; Ms Afifa Raihana, Senior Environmental & Social Specialist, IFC and Mr Wei Yuan, Project Lead, ESG Officer, IFC, who explained the ESRM project structure in Pakistan as part of sustainable finance.

□ Draft Islamic/ Conventional FX agreements

The final drafts and review of the Islamic and Conventional and Foreign Exchange Master Agreements have been completed by PBA and the legal review too has been finalized by Mandviwalla & Zafar (M&Z). These are now being shared with SBP for its concurrence before implementation by the banking industry.

□ Image Based Clearing

PBA is in the process of sending its concerns, as highlighted by the PBA, General Banking Sub Committee, to the National Institutional Facilitation Technologies (Pvt.) Ltd. [NIFT], regarding the newly implemented initiative of Image Based Clearing (IBC) in line with SBP's instructions. While the initiative is appreciated by PBA members, some of the challenges being faced by the banking industry with IBC are being taken up with SBP for its resolution.

❑ **Online Mortgage Register**

The SECP had asked for PBA's feedback on its the new utility 'Mortgage Register' that the SECP is going to launch subsequent to the online portal of Companies' corporate information and documents.

The Mortgage Register will enable banks to access details of mortgages/charges, available in record, of any company, along with instruments filed at the time of registration/ modification of mortgage/ charge.

The member banks termed the new initiative as a welcome step. The consolidated feedback of banks was sent to SECP on Jun 21, 2022.

❑ **Charges on cheque clearing services**

The National Institutional Facilitation Technologies (Pvt) Ltd (NIFT), had written to PBA regarding a considerable increase in its charges on cheque clearing services. The proposed revised rates were discussed by the PBA, General Banking Sub Committee and based on the Sub Committee members' views, a meeting between NIFT and the relevant banks will be held to discuss the matter amongst themselves.

❑ **Strategies to promote adoption of Climate Smart Agriculture Financing (CSAF) Products**

Upon SBP's request, PBA has recommended a strategy/action plan for CSAF products based on input given by the PBA Agriculture Finance Sub Committee.

A presentation titled, 'Strategy to promote Climate Smart Agriculture Finance (CSAF),' with proposed action points and timelines was prepared by PBA's Agriculture Finance Sub Committee and

❑ **IFC recommendations on NPL market in Pakistan**

A meeting was held on April 20, 2022, between IFC, SBP and PBA to further discuss IFC's report on the Non-Performing Loan (NPL) Market in Pakistan. The International Finance Corporation (IFC) had conducted a diagnostic assessment of the Non-Performing Loans (NPL) Market in Pakistan earlier this year, identifying deficiencies in the collateral valuation framework in Pakistan and issuing an assessment report. SBP had subsequently shared the assessment with PBA, requesting feedback and PBA's Risk Sub Committee had given its comments on the relevant action points of the diagnostic report which were shared with SBP. To further deliberate on the action items, a meeting was held between SBP and PBA on April 21, 2022 to decide a way forward on the NPL issue based on PBA's feedback to SBP.

❑ **Synchronized Withholding Administration and Payment Software (SWAPS)**

PBA has been collaborating with FBR and SBP on Digitalization of Corporate payments and to eliminate the practice of floating checks and banks' readiness to start corporate payments as per section 21 of ITO, 2001. To address the matter of Future Value Transaction (FVT) and digitalization of corporate payments, PBA's Working Group on Digital Banking, SBP and FBR are jointly looking at innovative solutions to change the custom of post-dated cheques and to explore digital solutions available in the market for corporate payments, Direct Debit Facility etc.

forwarded to SBP in March 2022. Following PBA's recommendations, SBP had requested PBA for a strategy document of the same which was subsequently shared by PBA in April 2022 with SBP and which includes the challenges posed by climate change and the role of financial institutions for risk mitigation.

Matters in the pipeline (As on June 30, 2022)

1. IFRS 9 Sustainability Disclosure Standards

The Institute of Chartered Accountants of Pakistan (ICAP) had requested PBA's feedback on the two drafts of IFRS9 Sustainability Disclosure Standards.

- ♦ *IFRS S1 - General Requirements for Disclosure of Sustainability-related Financial Information*
- ♦ *IFRS S2 - Climate-related Disclosures*

As per ICAP's communication, PBA was informed that there have been international developments in sustainability reporting, in view of which IFRS9 has gained significant importance globally. Subsequently, ICAP, through various initiatives, has been promoting the relevance of sustainability, climate change and related inclusions in business strategy. An International Sustainability Standards Board (ISSB) has also been formed with the support and endorsement of leading world economies, organizations, and investors for this purpose. Given the current focus on the issue, the Accounting Standards Board (ASB) of ICAP requested PBA's input on both the drafts – IFRS S1 and IFRS S2. PBA had asked the Chief Finance Officers of all its member banks to provide their feedback, and based on their input, a consolidated response for ICAP is being prepared at PBA.

2. National Financial Inclusion Program (NFLP) - Inactive Bank Accounts Research Project

The PBA Project Team (PT)/ Working Group (WG) with representations from banks has

Meetings held/attended

April 1, to June 30, 2022

External Meetings

- *Meeting between Mr. Salman Sufi, Head Prime Minister's Strategic Reforms, PM Office and Pakistan Banks' Association (PBA) to discuss centralized KYC project.*

- June 22, 2022

- *5th Meeting of the NFL Steering Committee to discuss Progress update of NFLP and the way Forward/Future Plans. Attended by Secretary, PBA, Mr Masood Raza.*

- June 22, 2022

- *Meeting of Agriculture and Credit Advisory Committee (ACAC) held under the chair of Deputy Governor, Ms. Sima Kamil.*

- June 15, 2022

- April 05, 2022

been working on the inactive bank accounts issue since 2021. The Working Group, with the concurrence of the PBA EC, has appointed a third party consultant – Nielsen IQ – to carry out an in-depth survey/ research to understand the key reasons for inactivity in customers' bank accounts. –Several challenges are being considered currently to address the matter of inactive bank accounts, the foremost being regulatory concerns on cloud hosting services by the research company as well as data sharing of customers and the protection of their rights. Discussions are currently being held between the PBA PT/WG and SBP for resolution of this issue.

3. Framework for managing Risks of TBML &TF

PBA's General Banking Sub Committee has addressed the essential requirement – as per the Framework for Managing Risks of Trade Based Money Laundering (TBML) and Terrorist Financing (TF) – of developing a portal/helpdesk to answer queries related to TBML/TF.

It was subsequently decided that all Trade Heads should make an e-mail and WhatsApp group where exchange of information and ideas may take place. The WhatsApp and email groups will soon be functional for this purpose.

4. Centralised Fraud database

The State Bank of Pakistan has communicated to PBA that its member Banks along with PBA, may devise a format with mutual understanding by listing down the possible categories/typology of Frauds & Forgeries (F&F) so far identified in Regulated Entities (RE) and the same may be updated periodically in a repository, to be maintained by PBA.

Earlier, in November 2021, a decision to create a centralized portal and database for frauds committed in the banking industry was taken in collaboration by SBP/ FIA and Banks in Enquiries & Investigations, subsequent to which a proposal for a centralized portal was received at PBA for review and development of an implementable structure.

- *World Bank meeting on 'Insolvency and Creditor/Debtor Rights (ICR) Report on the Observance of Standards and Codes (ROSC)'*:

Attended by Mr Amjad Iqbal, Head of Legal & Regulatory Affairs, PBA.

- June 2, 2022

- *FBR's meeting with Chairman & Members of PBA on Synchronized Withholding Administration and Payment Software (SWAPS) committee at SBP*

- May 09, 2022

Internal meetings

- UN Women's Capital Markets Expert of New York and PBA CEO/SG, Mr Tawfiq Hussain and other PBA team members. To exchange views on women's participation in the financial sector.

- May 26, 2022

Executive Committee

- Special meeting on Budget follow-up

- June 20, 2022

Virtual meeting to discuss taxation issues arising from the Finance Bill, 2022.

- June 15, 2022

- Shared eKYC Project Presentation to EC/All member banks

- April 27, 2022

The matter is currently under review of the relevant Sub Committee and Working Group of PBA.

5. SOPs for digital and social engineering frauds

SBP has forwarded Standard Operating Procedures (SOPs) developed by a designated committee for cooperation amongst banks, SBP and FIA for expeditious investigation and prosecution of digital and social engineering frauds.

SBP wants the SOPs to be rolled out by respective parties including banks.

PBA's Fraud Prevention Forum is currently reviewing the SOPs for practical application and the feedback will be provided to SBP before asking member banks to implement. The decision of outlining the SOPs for digital frauds was taken in January 2022 in a meeting held by SBP and FIA along with banking representatives.

- Special meeting to discuss eKYC Project
 - April 06, 2022

Sub Committees

- Accounting & Taxation
 - June 27, 2022
 - June 24, 2022
- General Banking
 - June 09, 2022

Sub Committees

- Accounting & Taxation
 - June 27, 2022
 - June 24, 2022
- General Banking
 - June 09, 2022

Working Groups



Shared eKYC Working Group/technical review

- June 27, 2022
- June 17, 2022
- June 10, 2022
- June 03, 2022
- May 26, 2022
- April 25, 2022
- April 22, 2022
- April 15, 2022

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