



PBA quarterly e-newsletter

July 1 – September 30, 2022



IMF team visits PBA

Ms. Esther Perez Ruiz, Resident Representative of International Monetary Fund (IMF) visited PBA on September 15, 2022 to meet with the PBA Executive Committee members. Ms Ruiz's team members included; Dr. Zafar Hayat, Senior Economist, Ms. Saher Masood, Economist and Mr Muhammad Ali, Office Manager.

In the absence of Mr. Aurangzeb, Chairman PBA, the PBA Team for this meeting was led by Mr. Mohsin Nathani, Vice Chairman, and included other EC members, Mr Rehmat Ali Hasnie, Acting President/CEO NBP; Mr Jehangir Shah, Pak Oman Investment Company; Mr Zahid Ahmed, Acting CEO, Albaraka Bank Ltd and PBA CEO/SG, Mr Tawfiq Hussain.

Matters of mutual interest regarding the IMF Programme, economy and the banking sector were discussed in the meeting.



Shared eKYC project

Following completion of the vendor selection process and the PBA EC's subsequent approval of the vendor, Avanza, a draft contract document was submitted by the vendor. The draft is currently being vetted by PBA's Legal Counsel. Meanwhile, feedback on the document from members of the eKYC



Working Group (WG) has also been received and a number of discussions on how to move forward on the project have been held by the WG.

It has been decided that the three banks that originally participated in the POC plus another two, will participate in the first phase of implementation.

PBA's appeal on the Finance Bill 2022



Since June 2022, following the announcement of the Draft Finance Bill 2022-2023, PBA has been actively lobbying on the issue of unfair taxation for the banking industry.

In July 2022, the PBA CEO/SG, Mr Tawfiq Hussain had written a second follow up letter to Dr. Miftah Ismail, the then Federal Minister for Finance and Revenue, emphasising the matter of the additional 4% Super Tax paid by banks and the tax on income from Federal Government Securities which has been levied retrospectively in the Federal Budget 2022 – 23.

Several meetings took place to address the situation, including two meetings with Dr. Miftah Ismail, the then Federal Minister for Finance and Revenue. The CEO/SG PBA had immediately written to the then Federal Minister for Finance and Revenue when the Budget 2022-23 was announced, pointing out the inequitable burden of taxation borne by the banking industry.

Despite several requests to reconsider the tax rate of 35% and the Super Tax of additional 4% retained in the draft 2022-2023 Finance Bill and the retrospective tax applied to Income from Government Securities, the Finance Bill was passed without taking these points into consideration. Only the poverty alleviation tax applied retrospectively was removed. In his letter of July 1, 2022, after the Finance Bill's approval, the CEO PBA appreciated the removal of the retrospective application of poverty alleviation but expressed disappointment at not taking into account the 4% Super Tax already being paid by banks and the additional tax on income from Federal Government securities still being applied retrospectively to TY 2022.

Framework for managing Risks of TBML &TF

PBA's General Banking Sub Committee had addressed the essential requirements – *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 a WhatsApp group where exchange of information and ideas may take place and the two virtual groups have now been formed.

Development of SBP's Strategic, 5-year Plan

At the request of SBP, the recommendations on the areas where SBP should focus in the next 5 years, as provided by some of PBA's member banks, were sent to SBP. PBA CEO/SG, Mr.Tawfiq Hussain had promised to also send to the Governor's Office, the high level consolidated comments as well. These were later sent to the Governor's Office on September 23, 2022.

Compliance of Schedule-IV notification

Member banks had raised the issue of challenges being faced by banks due to deficient information process regarding freezing/ de-freezing of accounts under NACTA (National Counter Terrorism Authority NACTA), Pakistan.

The shortcomings were noticed by banks in the critical area of Compliance of ATA Schedule – IV notification, where notifications of additions/ deletions were not being received by banks.

PBA General Banking Sub Committee reviewed members' request to streamline the deletion notification process and based on the Sub Committees feedback, SBP has been requested by PBA to address the required protocols with NACTA and Provincial Counter Terrorism departments to streamline this process.

Improving Payment Card Acceptance Infrastructure in Pakistan

With reference to the Draft PSP&OD Circular Letter (dated September 7, 2022), the PBA Consumer Sub Committee was of the view that the Circular would have a detrimental impact on the push and investment into the payments ecosystem and digitization drive in Pakistan, leading to a multi-year repercussion.

PBA Consumer banking Sub Committee deliberated on the feedback given by members who had reservations regarding the SBP Circular and based on those observations, the Sub Committee agreed that as per SBP's Circular on the subject, banks would inevitably be moving from a digitally aspired economy to a more cash dominated economy.

A follow up discussion between SBP and members of PBA Consumer Sub Committee will be taking place to address the matter.

Responses sent to SBP

July 1, 2022 – September 30, 2022

Smart Cheque App/portal

In August 2022, SBP had informed PBA that the Prime Minister's Office has raised the matter of exploring the developing of a Smart Cheque system to verify the credibility of issuers of a cheque, whereby the beneficiary may get information regarding history of the payer.

Subsequently, NIFT (National Institutional Facilitation Technologies) was also asked to provide feedback on this suggestion and propose solutions. PBA was then requested by SBP to provide its feedback on NIFT's proposal which was reviewed by PBA's General Banking Sub Committee and accordingly a response was sent to SBP on September 2, 2022.

Inactive Bank Accounts Research Project

The Minutes of the 5th Meeting of the National Financial Literacy Program (NFLP) Steering Committee, held on June 23, 2022, were shared with PBA in August 2022 by SBP, for members' information and feedback.

The NFLP Project Team & NFLP POC Working Group had carried out a survey of the Inactive Bank Accounts Research Project following which, a Study Report of the findings was prepared by them. A copy of the report was sent to PBA in July 2022 and subsequently circulated to member banks. Members' comments and PBA's update on the scientific Study was sent to SBP on September 26, 2022.

❑ Regulatory framework for resolution of NPLs

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 had subsequently issued an assessment report on which, at SBP's request, PBA's Risk Sub Committee had given its comments.

In the diagnostic report, IFC pointed out that there exists a lack of specialized tax framework for NPL sale, transfer or securitization transactions and bottlenecks and practical areas were identified which could be addressed in the short and medium term to make the market for NPLs in Pakistan more investor-friendly.

Subsequently, views of the Federal Board of Revenue (FBR) were solicited on the above recommendation of IFC and in response, FBR sought SBP, PBA and other stakeholders' feedback with a draft of necessary provision(s) for inclusion in the Income Tax Ordinance, 2001.

PBA Accounting and Taxation Sub Committee deliberated on IFC's recommendations and a response was sent to SBP on September 16, 2022.

❑ Revised PRs for Corporate / Commercial Banking

Further to PBA's comments sent to SBP in October 2021 on the proposed draft revisions in the Prudential Regulations for Corporate / Commercial Banking, SBP had requested PBA in July 2022 to provide additional feedback on the revised Prudential Regulations, particularly R-8 (Classification and Provisioning for Assets); benefit of collateral/security as under;

REGULATION R-8

CLASSIFICATION AND PROVISIONING FOR ASSETS

Para 2, Sub-Para (b): Benefit of collateral/security held: [Addition of following two conditions to the existing conditions set for availing FSV benefit]

ii. The bank/DFI will create a minimum provision of 10% of the NPL each year from the date of default till the end of FSV benefit period. In case, the required provision, after availing FSV benefit, is less than the 10% minimum provision required for any particular year, the bank will create higher of the required provision.

iii. The bank/DFI shall ensure that FSV benefit is determined based on the first collateral valuation report since the date of default. Subsequent collateral valuations may not be used to avail higher FSV benefit.

PBA members reviewed the proposed revised draft PR R-8 and their comments were reviewed by the PBA Risk Sub Committee and a consolidated feedback on the revised PRs has been sent to SBP.

❑ NADRA Biometric & Verisys Service – AML/CFT/CPF regulations

Earlier in 2022, PBA had asked SBP to convey to NADRA certain concerns/challenges being faced by banks regarding regulations to conduct Customer Due Diligence as per AML/CFT/CPF regulations. To reduce the risk of identity theft, it was requested that NADRA provide cost effective verification service for occasional customers at banks. PBA was subsequently informed in August 2022, that NADRA has agreed to provide a new biometric based verification service to the banking sector for verification of walk-in/ occasional customers as per PBA's request. This information was then circulated to all members of the General Banking Subcommittee.

❑ IFRS 9 implementation

The PBA Accounting & Taxation Sub Committee have given some additional recommendations regarding the IFRS 9 application instructions, which were sent to SBP in July 2022. The additional points would make a material impact on the banking industry and the SBP was requested to consider them and advise accordingly.

In June 2022, PBA CEO, Mr Tawfiq Hussain had emailed the DG SBP, Dr Inayat Husain, on behalf of the banking sector and had proposed that the implementation of IFRS 9 for the tax year 2022 may be deferred for banks till the next quarter.

The CEO PBA had requested the Deputy Governor to issue a circular extending the application date of IFRS 9 to after the June 30, 2022 financial statements. SBP later sought some information on jurisdictions where our members operated internationally. This was also provided by PBA to SBP.

❑ SOPs for digital and social engineering frauds

In July, 2022, SBP had forwarded Standard Operating Procedures (SOPs) developed by the designated committee for cooperation amongst banks, SBP and FIA for expeditious investigation and prosecution of digital and social engineering frauds. As per SOPs, one of the actions required by Regulated Institutions (RIs) was to make nomination of point of contact for each FIA Zone.

Nominations were received from 45 member banks of PBA and submitted to FIA and SBP in August, as required under the SOPs for future coordination.

❑ IFRS 9 Sustainability Disclosure Standards

PBA submitted its feedback on the IFRS 9 Sustainability Disclosure Standards to the Institute of Chartered Accountants of Pakistan (ICAP) in July 2022.

In June 2022, PBA's feedback was requested by the (ICAP) on the two drafts of IFRS9 Sustainability Disclosure Standards;

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

PBA had requested the Chief Finance Officers of all its member banks to provide their views on the two Disclosure documents who provided their input on the industry based sustainability disclosure requirements and based on their feedback, a consolidated response for ICAP was sent on July 7, 2022.

❑ Image Based Clearing

PBA's General Banking Sub Committee has deliberated on the challenges being faced by banks in adopting Image Based Clearing and has outlined some practical solutions to make SBP's initiative of digitization of payments smoother and successful.

The Sub Committee's concerns were sent to SBP with the request to review the stated challenges and facilitate the banking industry by advising the National Institutional Facilitation Technologies (Pvt.) Ltd. [NIFT] to provide plausible solutions to make this initiative a success.

❑ Policy for Financial inclusion of Persons with disabilities

In August 2022, SBP had requested for PBA's views on the potential challenges and possible solutions for the industry regarding banking and financial services for visually impaired/blind persons (SBP BC&CPD Circular No. 05 of 2021). With reference to the Circular, and member banks' concerns on certain challenges and security reasons in offering mobile / internet banking facility to Visually Impaired/ Blind persons due to security reasons, PBA's General Banking Sub Committee reviewed the matter taking into account members' concerns and a feedback was submitted to SBP on September 5, 2022.

❑ Member Banks' CSR programs

As decided by PBA's Executive Committee, PBA Office has requested member banks to share their respective contributions towards Corporate Social Responsibility (CSR), so that the banking sector's collective contributions and impact may be used for highlighting the Banking Sector's activities as responsible Corporate Citizens. This is necessary to counter the negative optics about the banking sector's profitability, without taking into account the banks' role & multifaceted contributions for the economy and the Country itself.



Key matters in the pipeline

As on September 30, 2022

▪ 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).

The drafts have been shared with SBP for their review & blessings, with a request to then issue necessary instructions to the banks to execute FX transactions on the basis of these agreements.

▪ Centralised Fraud database

The PBA Fraud Prevention Forum has reviewed SBP's suggestion of devising a format with mutual understanding with member banks by listing down the possible categories/typology of Frauds & Forgeries (F&F) so far identified in Regulated Entities (RE) and the same may be circulated amongst banks periodically.

PBA is currently in the process of developing a reporting format to be subsequently circulated to all banks.

Meetings held/attended

July 1, 2022 to September 30, 2022

Meetings with external stakeholders

- ♦ **Meeting with World Bank (WB);** held (virtually) between the PBA Digital Banking Sub Committee and the Senior Program Associate, Equitable Growth, Finance & Institutions WB in Islamabad.
 - *August 5, 2022.*
- ♦ **PBA EC meeting with the IMF;** Resident Representative, Ms. Esther Perez Ruiz and her team visited PBA office.
 - *September 15, 2022*
- ♦ **Meeting with SECP;** to discuss way forward to open bank account within 48 hours.
 - *July 18, 2022*
- ♦ **FBR awareness session on Common Reporting Standard (CRS);** PBA facilitated the participation of its member banks for the awareness session on CRS, organized by FBR at the Pakistan Stock Exchange building.
 - *August 31, 2022*

♦ **Meeting with Head Prime Minister's Strategic Reforms held on June 22, 2022.**

Mr. Salman Sufi, Head, Prime Minister's Strategic Reforms had a virtual meeting with PBA on June 22, 2022 to discuss progress on eKYC project. SBP's two directors (M/s Akhtar Javed & Syed Jehangir Shah) also attended the meeting. The CEO PBA, Mr. Tawfiq Hussain briefed the Advisor about the background of the initiative and progress made till Proof of Concept conducted by the Tech company Avanza Innovation. The Advisor termed the project as a welcome initiative and wished its early roll out preferably in six months. Mr. Tawfiq Hussain explained that a Working Group is actively involved in the project which is being overseen by a Steering Committee comprising of four heads of banks and a Director of SBP. However, being an innovative and complex project, it could take time beyond one year after initialization. The Advisor then asked about any governmental support for the project. It was apprised that enabling provision under the Banking Companies Ordinance is necessary for success of this project. The Advisor informed that he will discuss this point with SBP and will require a draft of amendments for processing at the government end.



Internal meetings

Executive Committee

- ♦ **Regular EC meeting scheduled by PBA Chairman.**
 - *August 23, 2022*
- ♦ **Special PBA EC Meeting to discuss Finance Bill 2022.**
 - *July 01, 2022*


Sub Committees, Forums and Working Groups

- ♦ **PBA Accounting & Taxation Sub Committee**
 - *September 2, 2022*
 - *July 22, 2022*
- ♦ **PBA Cyber Security Forum**
 - *August 26, 2022*
- ♦ **PBA Fraud Prevention Forum**
 - *July 22, 2022*
- ♦ **Digital Banking Working Group**
 - *August 5, 2022*
- ♦ **Internal Audit Working Group**
 - *July 06, 2022*
- ♦ **Shared eKYC Working Group**
 - *August 5, 2022*
 - *August 10, 2022*
 - *August 29, 2022*
 - *September 23, 2022*

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