
BenchMatrix>

Regulatory Bulletin

August 2021



Latest Circulars/Notifications issued by SBP

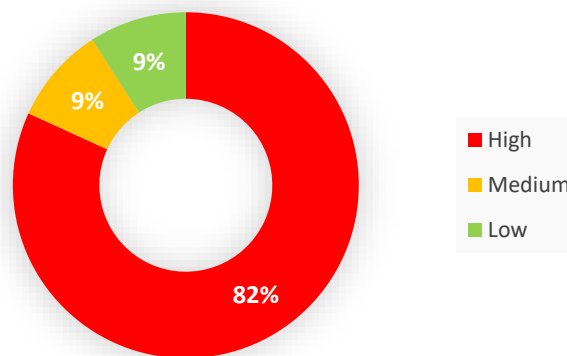
This document provides a summary of all the circulars/notifications issued by the State Bank of Pakistan during the month. The Regulatory Bulletin is a risk wise dissemination of significant matters issued by BenchMatrix.

Summary

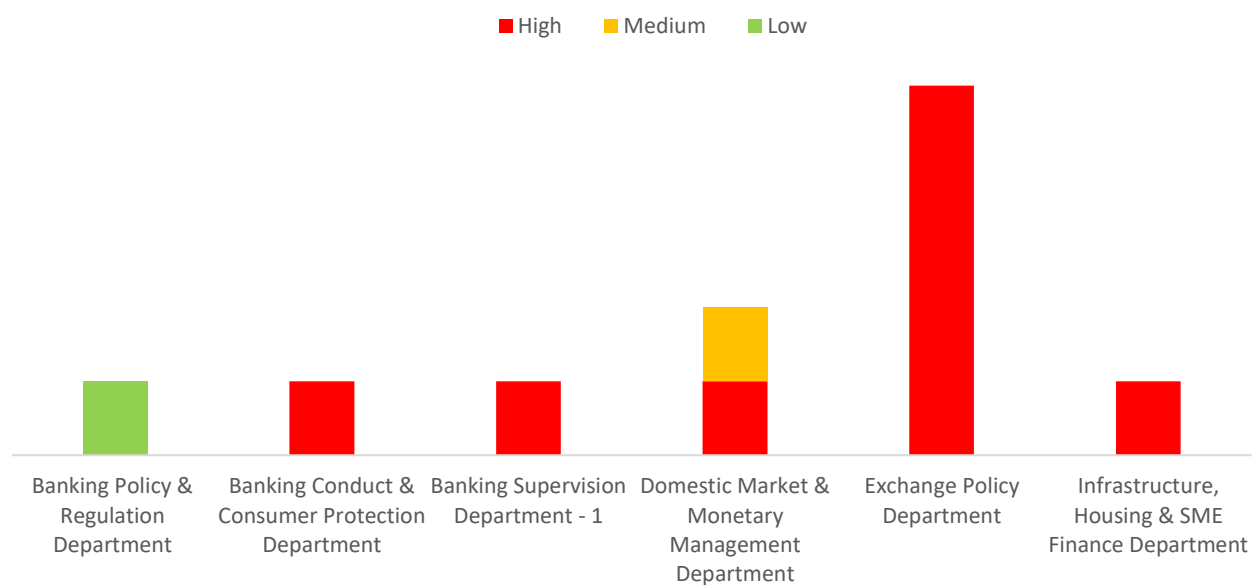
During the month of August 2021, the State Bank of Pakistan (SBP) issued a total of 13 circulars/notifications/ actions on significant matters.

Circulars / Notifications by Risk Level

Risk Level	Total
High	9
Medium	0
Low	3



Circulars / Notifications by Regulator Department & Risk Level



Key (High Risk) Circulars/Notifications

Statutory Liquidity Requirement (SLR)

via *DMMD Circular No. 13* dated 02-Aug-2021

In terms of Government of Pakistan, Ministry of Finance notification S.R.O. 746(I)/2021 dated May 31, 2021, the privately placed Sukuk to be issued by Pakistan International Airlines Company Limited (PIACL) under the title of "PIA-Sukuk-I" shall be an approved security for maintenance of SLR under sub-section 1 of section 29 of the Banking Companies Ordinance, 1962.

SLR eligibility limit (i.e. 7%) on Public Sector Sukuk should be applicable on PIA Sukuk-I in accordance with the provisions of the Notification referred above. (Notification is attached with circular)

Effective Date: **02-Aug-2021**

Regulator Department: **Domestic Market & Monetary Management Department**

Related FI Department: **Treasury Department**

Risk Category: **Clients, products and business practices - Suitability, disclosure and fiduciary**

[Read more on the website](#)

Details of Significant Enforcement Actions by SBP during the Quarter ended June 30, 2021

via *NIL 11* dated 30-Jun-2021

SBP has imposed regulatory penalty of Rs.525.244 million on eight FI's during the quarter ended 30th June, 2021. These penalties are related to Violation of regulatory instructions pertaining, to AML/CFT, Asset, Quality & General, FX and Banking Operations. Details as below:

- Bank Alfalah Limited Rs.11.100 million
- MCB Bank Ltd. Rs.289.091 million.
- First Women Bank Ltd Rs. 31.577 million
- Sindh Bank Ltd Rs. 62.177 million
- Soneri Bank Ltd. Rs 12.590 million
- Zarai Taraqati Bank Ltd. Rs. 75.759 million
- The Punjab Provincial Co. Bank Ltd. 32.504 million
- Pak Brunai Investment Company Ltd. Rs. 10.446 million

Effective Date: **30-Jun-2021**

Regulator Department: **Banking Supervision Department-1**

Related FI Department: **Finance Department/Compliance Department**

Risk Category: **Clients, products and business practices - Suitability, disclosure and fiduciary, Execution, delivery and process management - Transaction capture, execution and maintenance**

[Read more on the website](#)



Revision of Foreign Exchange Instructions on Commercial Remittances - Chapter 14 of Foreign Exchange Manual

via *FE Circular No. 07 dated 05-Aug-2021*

SBP has revised the Chapter No. 14 of Commercial Remittance. In the revised Chapter 14, following major changes have been made:

- Para 4A to 4D (New): Instructions on logistic/trade related remittances such as payment of Container Detention Charges, Demurrage Charges, Surplus Port Disbursement Funds, Disbursement of Cash to Master of Ship arriving at Pakistani Port, have been introduced with partial or complete delegation to Authorized Dealers
- Para 8 (ii) Amended: Regulations on remittance on account of chartering the foreign ships/aircrafts have been revised to delegate powers to Authorized Dealers to process requests for payment of charter cost direct to Owner/Operator/Commercial Operator of vessels/ships/tankers/aircraft
- Para 12 Amended: Instructions on remittance of Royalty, Franchise and Technical Fee (RFT) have been revised to align them with current business environment. Further, in order to promote ease of doing business, function of processing requests for acknowledgment of RFT agreements has been delegated to Authorized Dealers along with detailed guidelines in the matter
- Para 12A (New): Detailed regulations on Business Processes Outsourcing for non-core activities have been introduced
- Para 15 (Amended): Regulations on remittance of profit and head office expense by branches of foreign companies have been revised whereby function of processing such requests have been delegated to Authorized Dealers for the facilitation of stakeholders
 - In order to implement the revised policy on RFT (Para 12, Chapter 14 of FE Manual), AD's should set up a centralized unit to facilitate applicants. The unit shall be responsible for, inter alia, review and acknowledgment of RFT agreements, issuance of internal approval to respective branch for issuance of acknowledgment letter of the agreement as well as designation of the banker and

maintenance of party wise record of agreements acknowledged and remittance effected there against. AD's shall submit the compliance, in this regard, to SBP within 15 days of issuance of this circular.

- The Internal Audit function of the AD's should also be required to conduct periodic risk based internal audit of commercial remittances allowed by the bank under various provisions of Chapter-14. The audit report shall also be presented to the audit committee of Board of Directors of the Authorized Dealer for information and necessary action, if any.

Effective Date: **05-Aug-2021**

Regulator Department: **Exchange Policy Department**

Related FI Department: **Foreign Trade Department**

Risk Category: **Clients, products and business practices - Suitability, disclosure and fiduciary**

[Read more on the website](#)

SME Asaan Finance (SAAF) Scheme

via *IH&SMEFD Circular No. 09 dated 16-Aug-2021*

SBP is offering a 'SME Asaan Finance' (SAAF) scheme, available at Annexure A-i, (attached with circular) wherein refinance and risk coverage both are being offered together. SBP is now adopting a new approach wherein interested banks will bid for a subsidized facility with risk coverage. Banks winning the bid will invest in human resource, technology and processes to successfully develop expertise, capacity and capability to cater SME finance market. Accordingly, SBP is offering a 'SME

Asaan Finance' (SAAF) scheme, available at Annexure A-i, wherein refinance and risk coverage both are being offered together.

- To accommodate the financing needs of faith sensitive borrowers, Shariah compliant alternate of the scheme i.e. 'Islamic SME Asaan Finance' (I-SAAF) has also been developed and is available at Annexure B-i. Following are the main features of the scheme:
 - **Scope and Eligibility** - All SMEs (new businesses as well as operative businesses) that are new borrowers of the participating banks are eligible. A single SME can, however, avail this facility from one bank only.
 - **Financing Limit, Type and Tenure** - Maximum financing, under the scheme, to a single SME will be capped at PKR 10 million. All types of loans i.e. term loans as well as working Capital/running finance loans will be eligible Maximum tenor of the loan will be as per financing facility approved by the participating bank.
 - **Rate of Mark-up** - Mark-up rate for end user under the scheme will be of up to 9 percent per annum. SBP will provide refinance to banks at 1 percent p.a. thereby, offering a spread of up to 8 percent p.a.
 - **Risk Sharing** - Under the scheme, Government of Pakistan will provide risk coverage of 40 percent to 60 percent on first loss portfolio basis on following portfolio categories:
 - I. Loans of up to PKR 4 million 60%
 - II. Loans exceeding PKR 4 million and up to PKR 7 million 50%
 - III. Loans exceeding PKR 7 million and up to PKR 10 million 40%. The risk sharing will be synchronized with the classification and provisioning criteria of SBP prescribed under PR for SME Financing to ensure that the profit & loss account of participating banks is not affected as far as loan infections remain below risk coverage levels
- Where The guarantee/risk sharing will be applicable on loans disbursed under this scheme during the first three years from the launch of the scheme. The validity of the guarantee/risk sharing facility come to an end after four years of the initiation of the scheme. The last

payment under the risk sharing facility will be made for infections recognized at the end of last quarter of fourth year

- The risk coverage, at prescribed percentages, will be available separately for each portfolio category and appropriation of residual risk coverage from one portfolio category to another will not be permissible
- Limit on clean facility prescribed under Regulation SME R-4 of PR for SME financing will not be applicable on financing by banks under this scheme
- SBP invites interest of banks through Expression of interest (EOI). Banks offering highest portfolio size and largest number of borrowers will be selected for participation in the scheme. Maximum number of participating banks under the scheme, selected from following four categories, based on the criteria specified by SBP, will be eight:
 - Large Banks
 - Mid-sized Banks
 - Small Banks
 - Any category of banks in collaboration with a Fintech

Details are specified in EOI available at Annexure C. (attached with circular) Banks may apply as per EOI to SBP within four weeks from the issuance of this circular.

Effective Date: **16-Aug-2021**

Regulator Department: **Infrastructure, Housing & SME Finance Department**

Related FI Department: **Operation Department / Risk Management Department**

Risk Category: **Clients, products and business practices - Suitability, disclosure and fiduciary, Clients, products and business practices - Product flaws**

[Read more on the website](#)

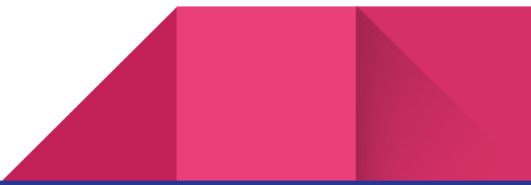
Amendment in Instructions regarding NRP Rupee Value Account (NRVA)

via EPD Circular Letter No. 10 dated 27-Aug-2021

Attention of Authorized Dealers (ADs) is invited to FE Circular No. 1 dated August 5, 2020, investment is allowed from NRP Rupee Value Account (NRVA). It has been decided to allow investment in shares of un-listed companies and units of Private Equity Funds in Pakistan from NRVA. Moreover, investment in real estate has also been allowed through financing in Pakistan, from the banks offering RDAs. Accordingly, the following amendments have been made in the existing regulations:

- Para 2-III (iii(c)) of the above circular has been replaced with the following:
 - C. Profit/ return on the eligible investments made through NRVA as mentioned at sub-para (iv) (a) below, and disinvestment/maturity proceeds of these investments
- New sub paras 6 & 7 have been added after sub para 5 Para 2-III (iv a).
 - 6. Shares of companies not listed on stock exchange(s) in Pakistan
 - 7. Units of private funds established and operated by Private Fund Management Company licensed by SECP to provide private equity and venture capital fund management services
- Existing sub para 3 of Para 2-III (iv a)) has been replaced with the following:
 - 3. Residential and commercial real estates, either through self-financing or bank's financing in Pakistan provided that in case of bank financing the repayment of loan should be made through NRVA

The transfer of funds for the above investments shall be allowed by the ADs through the special instructions received from the account holder in this behalf. The procedure prescribed for investment/ disinvestment in Chapter 20 of the Foreign Exchange Manual shall be followed



while for investment mentioned at (3) above, the terms and conditions prescribed at Annexure-A, at the end of this chapter, shall be followed.

In order to facilitate NRVA holders, SBP has decided that Authorized Dealers may allow credit of funds received on account of profit and premature /maturity proceeds of Pakistan Banao Certificates (PBCs) into the PBC holder's own NRVA. Keeping in view the above changes, the Annexure- A and B have also been revised and attached herewith for necessary compliance. (All annexures are attached with circular)

Effective Date: **27-Aug-2021**

Regulator Department: **Exchange Policy Department**

Related FI Department: **Operation Department**

Risk Category: **Clients, products and business practices - Suitability, disclosure and fiduciary, Clients, products and business practices - Improper business or market practices**

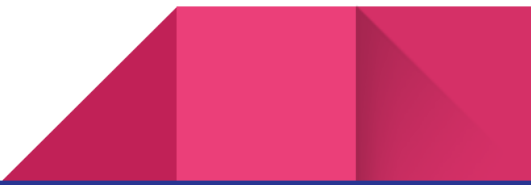
[Read more on the website](#)

Mandatory Master Circular on Sale of Third Party Products

via BC&CPD Circular No. 08 dated 25-Aug-2021

In April 2021, The provisions of this circular are applicable on bancassurance/ bancatakaful and other investment related third party products offered by banks/ MFBs/ DFIs hereinafter referred to as 'banks'.

- Governance:

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- Banks should have a policy duly approved by their Board of Directors on the sale of third party products
 - The Islamic banks and conventional banks offering Islamic products are required to ensure that the sale of third party products is covered in the Shariah Governance Framework in line with the instructions issued by SBP and all agreements with the takaful company/ third party are vetted by the Shariah Board/ Shariah Advisor of the respective bank
 - The audit and compliance functions of the banks should ensure that the business of third party products is being conducted in accordance with the applicable SBP's regulations and the Fair Treatment of Consumer (FTC) objectives of the bank
 - Banks offering third party products should establish a centralized and independent control function
 - The bank's performance related to the sale of third party products especially bancassurance/ bancatakaful and investment products should be reviewed quarterly by a senior level management committee of the bank
 - Suitability: SBP advise to banks to conduct suitability analysis of the prospective customers before selling bancassurance/ bancatakaful and third party products. For the purpose, banks will develop suitability criteria approved by the competent authority, that should include at least the minimum parameters as given in circular. Banks should also ensure the followings:
 - Keep the record of the suitability assessments conducted till one year after the maturity of the product
 - Requests for any change in product feature, premium amount, Ad hoc premium, accelerated payments, etc. will be approved at one level up from the initial approving authority
 - Requests for investments in third party products by senior citizens, widows, illiterate persons, special/ differently-abled persons and pensioners will be approved at least at the level of Regional Head ensuring the suitability of the product
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- Banks are encouraged to adopt an automated system for suitability assessments. Banks must keep all information of clients confidential
 - Disclosure:
 - An additional undertaking from the customer should be obtained regarding understanding risks for investment linked products in line with the Bancassurance Regulations issued by SECP
 - In addition to the requirements prescribed by SECP, the banks will continue using basic fact sheet elaborating at least the facts as mentioned in the circular
 - The basic fact sheet should be a distinct-looking document including an undertaking by the customer that he/she understands all the stated terms and conditions of the product
 - Call Back Confirmation:
 - Banks should institute a Call Back Confirmation (CBC) mechanism whereby the customer is contacted and his/her understanding of the product. Banks will retain the record of such calls for at least 7 years or maturity of the product whichever is later. For products with no investment feature and annual premium up to Rs. 50,000, being sold through digital channels, the CBC may be conducted on at least a representative sample of 25%
 - Banks should suitably verify the identity of the customer during CBC to ensure that the call is received by the actual customer
 - Direct Debit: The option of premium deduction through direct debit shall only be allowed on the written consent of the customer and the banks and/ or insurers shall send free SMS and/ or email alert to the customer regarding direct debit before 3 working days at the time of each periodic premium deduction
 - Incentives: No bank employee should be allowed to receive incentives directly from the third party/ seller of these products
 - Training: In addition to the training requirements prescribed by SECP, the banks should train their relevant staff for their role and responsibilities with regard to the selling of third party products

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- Claim handling: The agreements between banks and insurance/ Takaful/ investment companies must explicitly cover the maximum Turn Around Times (TATs), preferably stringent from the regulatory requirements prescribed by SECP vide Corporate Insurance Agent Regulations, to dispose of the claim in a timely manner
 - Complaint handling: Banks must resolve complaints against these products expeditiously in line with regulatory requirements given under BC&CPD Circular No. 01 of 2016. Banks should take necessary steps to ensure ease in the lodgment of such complaints and reported to SBP in quarterly return on complaints required under BC&CPD Circular No. 01 of 2016.
 - Customer experience and feedback: Banks should deploy specific tools like mystery shopping, customer surveys, customer testing and feedback from cancellation calls to capture customer experience and feedback
 - Prohibitions: Banks are prohibited from marketing and selling third party products with their name without mentioning explicitly that the product is being sold as an agent or distributor of a third party and prohibited from marketing and closing the sale of third party products on a single/ same call
 - Enforceability: The instructions will be applicable from November 01, 2021 and will supersede previous instructions

Effective Date: **01-Nov-2021**

Regulator Department: **Banking Conduct & Consumer Protection Department**

Related FI Department: **Operation Department**

Risk Category: **Clients, products and business practices - Suitability, disclosure and fiduciary, Clients, products and business practices - Product flaws**

[Read more on the website](#)



Amendment in Instructions regarding NRP Rupee Value Account (NRVA) – Inward Remittances through International Money Transfer Operators / Exchange Companies

via EPD Circular Letter No. 11 dated 27-Aug-2021

In terms of FE Circular No. 1 dated August 5, 2020, Para 2 Sub-Para (III) (iii-a)) of the above circular remittances received from abroad through banking channels can be credited into NRP Rupee Value Account (NRVA). In order to further facilitate the non-resident Pakistanis in sending remittances from abroad into their NRVA, it has been decided that Authorized Dealers may allow credit into NRVA on account of remittances received from abroad through the foreign correspondent entities under their home remittance agency agreements, both on 'Free Send Model' and 'Fee Based Model', subject to compliance with the following conditions:

- AD shall not claim 'Reimbursement of TT Charges' for remittances received under 'Free Send Model' for credit into NRVA. While 'Reimbursement of TT charges scheme is already not applicable on 'Fee Based Model'
- Authorized Dealers shall ensure that no customer including NRVA customer is charged any fee at the time of sending remittances through foreign correspondent under 'Free Send Model'
- AD may, however, either provide this service free of cost or charge a fee, not more than the amount otherwise reimbursable to them under 'Reimbursement of TT Charges scheme', in Pakistan from beneficiary's account for remittances received in NRVA under 'Free Send Model'
- In case of remittances received through the intermediary bank in Pakistan, the intermediary bank will transfer the remittances along with complete detail of underlying transactions to the beneficiary bank. The beneficiary bank will identify the number of transactions received from the intermediary bank for credit to NRVA and share the details with intermediary bank, latest by 5th day of the subsequent month. The intermediary bank will not claim TT reimbursement charges for these transactions from SBP. The beneficiary bank will pay the

applicable charges to intermediary bank, either on its own or recover from the account holder as per sub-para iii above

- In case of remittances received under 'Free Send Model' for credit to accounts other than NRVA, Authorized Dealers shall comply with all applicable regulations to claim 'Reimbursement of TT charges' as given in EPD Circular Letter No. 08 dated May 24, 2016, as amended from time to time
- Authorized Dealer shall inform NRVA holders about the applicable fees to be deducted in Pakistan from their NRVA under the above arrangement
- Accordingly, the Para 2 Sub-Para (III) (iii-a)) of the FE Circular No. 01 dated August 05, 2020 shall be replaced with the following:
 - "Remittances received from abroad through banks and foreign correspondent entities under their home remittance agency agreements with Authorized Dealers in Pakistan."

Effective Date: **27-Aug-2021**

Regulator Department: **Exchange Policy Department**

Related FI Department: **Operation Department**

Risk Category: **Clients, products and business practices - Suitability, disclosure and fiduciary, Clients, products and business practices - Product flaws**

[Read more on the website](#)

Instructions to Further Strengthen Consumer Grievance Handling Mechanism

via EPD Circular Letter No. 12 dated 27-Aug-2021

According to Para 3, Chapter 19 of the Foreign Exchange Manual, in terms of which ADs have general permission to grant loan to individual non-resident Pakistanis and resident foreign national in local currency in Pakistan. SBP has decided to facilitate non-resident Pakistan Origin Card (POC) holders to avail consumer financing from banks in Pakistan. Accordingly, the above Para 3 ibid shall be replaced with the following:

- The Authorized Dealers have general permission to provide loan to individual non-resident Pakistanis and non-resident Pakistan Origin Card (POC) holders in local currency in Pakistan, subject to observance of the relevant Prudential Regulations and compliance of 'AML/CFT' requirements. The purpose of borrowing must be clear, legitimate and duly documented. However, any such lending by the Authorized Dealers shall be subject to the following conditions:
 - The loan shall be liquidated by the borrowers through remittances from abroad in foreign exchange through normal banking channel or by debit to their repatriable PKR and foreign currency accounts which must be fed through foreign remittances
 - Sale proceeds of property, moveable or immovable, created from such lending shall not be eligible for repatriation, unless otherwise allowed by SBP through general or specific permission.
- Authorized Dealers may also grant rupee loans to resident individual foreign nationals, except for purchasing immovable property and the purposes either restricted by the State Bank or any other prevalent law

Effective Date: **27-Aug-2021**

Regulator Department: **Exchange Policy Department**

Related FI Department: **Operation Department /Compliance Department**

Risk Category: **Clients, products and business practices - Suitability, disclosure and fiduciary**

[Read more on the website](#)

Amendment in Instructions regarding Foreign Currency Value Account (FCVA)

via EPD Circular Letter No. 13 dated 27-Aug-2021

In terms of Para 2 (iii) of Circular No. 2 dated August 5, 2020, credits to FCVA have been prescribed. In order to facilitate the FCVA holders, it has been decided that Authorized Dealers may allow credit of funds received on account of profit and premature /maturity proceeds of Pakistan Banao Certificates (PBCs) into the PBC holder's own FCVA.

Effective Date: **27-Aug-2021**

Regulator Department: **Exchange Policy Department**

Related FI Department: **Operation Department**

Risk Category: **Clients, products and business practices - Suitability, disclosure and fiduciary**

[Read more on the website](#)



Other (Medium/Low Risk) Circulars & Notifications

Rate of Remuneration on Special Cash Reserve Account Maintained with SBP Against Deposits Raised Under FE- Circular 25 OF 1998

via DMMD Circular No. 14 dated 31-Aug-2021

SBP is notified that the rate of remuneration for the month of September 2021 on Special Cash Reserve Account (US\$) maintained with the State Bank of Pakistan will be 0.00%.

Effective Date: **01-Sep-2021**

Regulator Department: **Domestic Market & Monetary Management Department**

Related FI Department: **Treasury Department**

Risk Category: **Clients, products and business practices - Suitability, disclosure and fiduciary**

[Read more on the website](#)

Public Holiday

via BPRD Circular Letter No. 26 dated 10-Aug-2021

The State Bank of Pakistan will remain closed on Saturday, August 14, 2021 on the occasion of 'Independence Day' as declared by the Government of Pakistan.

Effective Date: **14-Aug-2021**

Regulator Department: **Banking Policy & Regulations Department**



Related FI Department: **Human Resources**

Risk Category: **Clients, products and business practices - Suitability, disclosure and fiduciary**

[Read more on the website](#)



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