

[AS PASSED BY THE NATIONAL ASSEMBLY]

A

Bill

further to amend the State Bank of Pakistan Act, 1956

WHEREAS it is expedient further to amend the State Bank of Pakistan Act, 1956 (XXXIII of 1956) for the purposes hereinafter appearing;

It is hereby enacted as follows:-

1. Short title and commencement.- (1) This Act may be called the State Bank of Pakistan (Amendment) Act, 2015.

(2) It shall come into force at once

2. Amendment of section 2, Act XXXIII of 1956.- In the State Bank of Pakistan Act, 1956 (XXXIII of 1956), hereinafter referred to as the said Act, in section 2,-

- (a) clause (a) shall be omitted;
- (b) in clause (e) and in subsequent provisions of the said Act, for the words "Central Board", wherever occurring, the word "Board" shall be substituted;
- (c) clauses (h) and (j) shall be omitted;
- (d) in clause (k), for the words "a Local Board", the words "the Monetary Policy Committee" shall be substituted;
- (e) in clause (l),-
 - (i) the words "and one-rupee notes" shall be omitted; and
 - (ii) for the word "are" the word "is" shall be substituted;
- (f) in clause (o), for full stop a semicolon and the word ";and" shall be substituted;
- (g) after clause (o), amended as aforesaid, the following new clause shall be added, namely:-
 - "(p) "Monetary Policy Committee" means the Monetary Policy Committee established under section 9D."

3. Substitution of section 4, Act XXXIII of 1956.- In the said Act, for section 4, the following shall be substituted, namely:-

"4. Share capital.- (1) The capital of the Bank shall be one hundred million Rupees, which shall be fully subscribed, paid-up and held exclusively by the Federal Government and shall not be transferable or subject to encumbrance.

(2) The capital may be increased by a resolution of the Board subject to the approval of the Federal Government and no reduction of the capital shall be permitted at any time.

(3) The nominal value, issue price, the manner in which the new shares may be issued and allotted and their assignment to the register of shareholders shall be determined by the Board."

4. Omission of sections 5, 6 and 7, Act XXXIII of 1956.- In the said Act, sections 5, 6 and 7 shall be omitted.

5. Amendment of section 8, Act XXXIII of 1956.- In the said Act, in section 8, in sub-section (2) for the word "Federal Government" the word "Board" shall be substituted..

- 6. Amendment of section 8A, Act XXXIII of 1956.**- In the said Act, in section 8A,-
- (a) in clause (c), the word "and", occurring at the end, shall be omitted;
 - (b) the existing clause (d) shall be re-numbered as clause (e); and
 - (c) after clause (c), amended as aforesaid, the following new clause shall be inserted, namely:-
 "(d) for protection of depositors or establishment of a deposit protection fund; and";

7. Amendment of section 9, Act XXXIII of 1956.- In the said Act, in section 9, in sub-section (1), after the brackets and the figure "(1)", the expression "Subject to section 9D," shall be inserted;

8. Substitution of Section 9A, Act XXXIII of 1956.- In the said Act, for section 9A, the following shall be substituted, namely:-

"9A. Functions and responsibilities of the Board.-(1) The Board, with the exception of the powers entrusted to the Monetary Policy Committee, shall perform the following functions, namely:-

- (a) to define and determine policies of the Bank regarding the execution of its functions, and approve internal rules for their implementation; and
- (b) oversee foreign exchange reserve management and approve strategic investment and risk policy.

(2) The Board shall submit a quarterly report to the Majlis-e-Shoora (Parliament) on the state of economy with special reference to economic growth, money supply, credit, balance of payment and price development."

9. Amendment of section 9B, Act XXXIII of 1956.- In the said Act, in section 9B, in sub-section (6), for the word "constituency" the word "consistency" shall be substituted.

10. Amendment of section 9C, Act XXXIII of 1956.- In the said Act, in section 9C, in sub-section (2), for the word "eight" the word "twelve" shall be substituted.

11. Insertion of new sections, Act XXXIII of 1956.- In the said Act, after section 9C, amended as aforesaid, the following new sections shall be inserted, namely:-

"9D. Establishment of Monetary Policy Committee.-(1) There shall be a Monetary Policy Committee consisting of-

- (a) Governor, or in his absence, a Deputy Governor nominated by him *Chairperson*
- (b) three senior executives of the Bank to be nominated by the Governor *Members*
- (c) three members of the Board, to be nominated by the Board *Members*

- (d) **three external members, who shall be economist, to be appointed by Members the Federal Government on recommendation of the Board**

(2) The external members of the Monetary Policy Committee shall be appointed for a period of three years and shall be eligible for re-appointment for another term of three years.

(3) The provisions of sections 13 and 15 shall, *mutatis mutandis*, apply to external members of the Monetary Policy Committee.

(4) The services of a member of the Monetary Policy Committee shall be terminated or a member shall be removed from the Monetary Policy Committee in accordance with the procedure laid down in section 15 for removal of a member on the following grounds, namely: -

- (a) when that member becomes ineligible to serve on the Monetary Policy Committee pursuant to application of sub-section (3); or
- (b) to whom grounds for removal of the members of the Board or termination of their appointments apply;
- (c) when that member contravenes the regulations of procedure of the Monetary Policy Committee.

(5) The Board may make regulations of procedure of the Monetary Policy Committee.

(6) All recommendations of the Monetary Policy Committee shall be taken by majority of members present and voting and in the event of equality of votes, the Chairperson may exercise a casting vote.

“9E. Powers and functions of Monetary Policy Committee.- The Monetary Policy Committee shall, without prejudice to its powers and functions and those of the Bank, support the general economic policies of the Federal Government and shall –

- (a) formulate, support and recommend the monetary policy, including, as appropriate, decisions relating to intermediate monetary objectives, key interest rates and the supply of reserves in Pakistan and may make regulations for their implementation;
- (b) approve and issue the monetary policy statement and other monetary policy measures;
- (c) perform any other functions conferred on it by law; and
- (d) carry out any ancillary activities incidental to the exercise of its functions under this Act.”.

12. Amendment of section 10, Act XXXIII of 1956.- In the said Act, in section 10, in sub-section (2), the words "or by the Bank in general meeting" shall be omitted.

13. Omission of sections 11 and 12, Act XXXIII of 1956.- In the said Act, sections 11 and 12 shall be omitted.

14. Amendment of section 13, Act XXXIII of 1956.- In the said Act, in section 13,-

- (a) in sub-section (1),-
 - (i) clause (g) shall be omitted;
 - (ii) for clause (h), the following shall be substituted, namely:-

"(h) who absents himself from three consecutive meetings of the Board or Monetary Policy Committee without leave from the Board or Monetary Policy Committee, as the case may be.";

- (b) in sub-section (2), the word, brackets and letter "and (g)" shall be omitted; and
- (c) sub-section (3), shall be omitted.

15. Amendment of section 14, Act XXXIII of 1956.- In the said Act, in section 14, for sub-section (1), the following shall be substituted, namely:-

"(1) The Directors appointed under clause (c) of sub-section (2) of section 9 shall hold office for three years."

16. Amendment of section 15, Act XXXIII of 1956.- In the said Act, in section 15,-

- (a) in sub-section (2), for the words "An elected" the letter "A" shall be substituted;
- (b) in sub-section (3), in clause (c), after the letter "A", the words "director or" shall be inserted;
- (c) in sub-section (4), for the words "nominated or elected" the word "appointed" shall be substituted.
- (d) in sub-section (5),-
 - (i) for the words "nominated directors or members" the words "appointed directors" shall be substituted; and
 - (ii) for the words and comma "nominating another director or member, as the case may be" the words "appointing another director" shall be substituted; and
- (e) sub-section (6) shall be omitted.

17. Omission of section 16, Act XXXIII of 1956.- In the said Act, section 16 shall be omitted.

18. Amendment of section 17, Act XXXIII of 1956 – In the said Act, in section 17, after clause (1), the following new clause (1A) shall be inserted, namely:-

"(1A) hold and manage the international reserves of Pakistan;"

19. Insertion of new sections, Act XXXIII of 1956.- In the said Act, after section 17F, the following new sections shall be inserted, namely:-

"17G. Lender of last resort.- Where the circumstances so warrant and a scheduled bank approaches the Bank for financial facility to improve its liquidity and where the bank, in the opinion of the Bank, is solvent and can provide adequate collateral to support the financial facility, the Bank may provide the financial facility, in accordance with the regulations made by the Bank in relation thereto.

17H. Regulatory powers.- (1) The Bank shall have power to issue such directives, instructions and regulations in whatsoever form as may be necessary for carrying out the functions of the Bank under this Act or any other law and shall be binding and enforceable.

(2) The Bank may take any enforcement action including imposition and collection of pecuniary penalties upon legal and natural persons for contravention of this Act, any law being administered by the Bank and exercise of any power under sub-section (1)."

20. Amendment of section 18, Act XXXIII of 1956. – In the said Act, in section 18, in sub-section (2), for the word "Board", the words "Monetary Policy Committee", shall be substituted.

21. Substitution of section 19, Act XXXIII of 1956. – In the said Act, for section 19, the following shall be substituted, namely:-

"19 Declaration of approved foreign exchange. – The Board may declare the currency of any country or any monetary unit of account to be approved foreign exchange for all or any of the purposes of this Act."

22. Amendment of section 20, Act XXXIII of 1956. – In the said Act, in section 20, in sub-section (3A), after the word "or", occurring first, the words and comma "for the purposes of use for *Shariah* compliant instruments, "shall be inserted .

23. Amendment of section 30, Act XXXIII of 1956. – In the said Act, in section 30, in sub-section

(1), in clause (a), for the words "as the Federal Government, in consultation with the Bank, may, by notification in the official Gazette", the words "Board may" shall be substituted.

24. Amendment of section 31, Act XXXIII of 1956. – In the said Act, in section 31, for the words "Federal Government", the word "Board" shall be substituted.

25. Amendment in section 40, Act XXXIII of 1956. – In the said Act, in section 40,-

(a) for sub-section (1), the following shall be substituted, namely:-

"(1) The Bank shall prepare and transmit to the Federal Government a weekly account of the Bank in such form as the Board may decide. The Federal Government shall cause these accounts to be published weekly in the official Gazette."; and

(b) sub-section (3) shall be omitted.

26. Substitution of section 42, Act XXXIII of 1956. – In the said Act, for section 42 the following shall be substituted, namely:-

"42. Allocation of surplus- After making provision for bad and doubtful debts, depreciation in assets, contributions to staff and superannuation funds, such other contingencies or appropriations as are usually provided for by Central Banks in matters respecting unrealized gains on foreign exchange reserves, properties, gold, long-term investments and other similar assets and certain losses directly charged to equity of the Bank, there shall be paid to the shareholders out of the net annual profit a dividend on the shares at a rate to be fixed by the Federal Government, from time to time. Any surplus remaining thereafter shall be paid to the Federal Government."

27. Substitution of section 43, Act XXXIII of 1956. – In the said Act, for section 43 the following shall be substituted, namely:-

"43. Auditors- (i) The Board shall not appoint less than two auditors and the remuneration of such auditors shall be fixed by the Board. A director of the Board or external member of the Monetary Policy Committee or other officer of the Bank shall not be eligible during his continuance in office to be so appointed or for a period of one year after leaving his office. Any auditor so appointed shall, on vacating office, be eligible for re-appointment,

(2) All auditors appointed under this section shall be, and continue to act as, auditors for the period as may be decided by the Board."

28. Amendment of section 45, Act XXXIII of 1956.- In the said Act, in section 45, in sub-section (2),-

- (a) for the word "shareholders", wherever occurring, the word "Board" shall be substituted;
- (b) after the words "drawn up" the words "in accordance with the policies adopted by the Bank" shall be inserted; and
- (c) for the word "correct" the word "fair" shall be substituted.

29. Amendment of section 51, Act XXXIII of 1956.- In the said Act, in section 51, for the words "or a Local Board" the words "or the Monetary Policy Committee" shall be substituted.

30. Amendment of section 54, Act XXXIII of 1956.-- In the said Act, in section 54, in sub-section (2),-

- (a) clauses (a),(b),(c),(d),(e),(g) and (s) shall be omitted.
- (b) in clause (f), for the words "Central Board, Executive Committee and Local Board and committees of the Central and Local Boards", the words "Board and Committees of the Board" shall be substituted.

31. Omission of the Schedule, Act XXXIII of 1956.- In the said Act the Schedule shall be omitted.

Statement of Objects and Reasons

The purpose of amendments in the SBP Act 1956 is to bring the existing legislation in conformity with the international best practices of a modern central bank.

The amendments in the Act are being proposed for the following reasons:

1. The existing clauses pertaining to shareholders, executive committee and local boards have been omitted in the SBP Act by introducing various amendments in the Act since these are no longer relevant after the promulgation of the Bank (Nationalization) Act, 1974.
2. A statutory Monetary Policy Committee with external experts to be appointed by the Federal Government has been established, which will be responsible to formulate, support and recommend the Monetary Policy and take appropriate decisions relating to key interest rates, supply of reserves, exchange rate policy, and limit and nature of advances and loans to the Government. The main object for introducing this statutory committee is to enable the State Bank to perform its essential functions in a professional way in a changing and emerging financial environment. Consequently various sections in the Act have also been amended in order to secure the independent statutory role of the Monetary Policy Committee.
3. An enabling clause to allow SBP for establishment of depositor's protection fund has been introduced. Draft law on the deposit protection fund is already under consideration of the Federal Government whereby the Fund will be a subsidiary of SBP.
4. A new section on Lender of last resort has been introduced in the Act to provide legal certainty to the support that is already being provided by SBP to the troubled banks.
5. Another new section on regulatory powers has been introduced in the Act, in order to provide explicit powers to SBP for issuing directives, imposing and recovering penalties which is already being exercised by SBP under Banking Companies Ordinance 1962.
6. In order to further the role of Islamic Banking in Pakistan, it is necessary for the Bank to engage in Shariah Compliant Instruments. For the purposes, amendment has been introduced whereby, Bank is allowed to hold property for the purposes of use of Shariah Compliant Instruments (see 20).

7. The role of SBP has been strengthened further by substituting the Federal Government's approval wherever required, with the Board's approval. This is reflected in various amendments including but not limited to establishing offices, agencies or branches outside Pakistan (see 81V) approve declaration or approved foreign currency (see 19), total amount of assets and the value of such assets (see 30), forms of weekly returns submitted to Federal Government (sec. 40)

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