

28th October, 2003

**STATE BANK ISSUES THREE NEW PRUDENTIAL
REGULATIONS FOR CORPORATE BANKING,
SME FINANCING & CONSUMER FINANCING.**

The State Bank of Pakistan has issued three new Prudential Regulations for Corporate Banking, SME Financing and Consumer Financing. The Deputy Governor, State Bank of Pakistan, Mr. Tawfiq A. Husain announced at a news conference held at SBP head office in Karachi today, that these new Prudential Regulations would come into effect from 1st January, 2004. This would enable the banks/DFIs to prepare themselves for complying with the new Prudential Regulations, he said, and added that these Regulations had been finalized after extensive and intensive consultations with all the major stakeholders, particularly the banks.

He said the previous Prudential Regulations were designed for a predominantly public sector banking system and geared more for Wholesale/Commercial banking. After the privatization of Habib Bank, 80% of the market would be in the private sector. Furthermore, the significant growth in Consumer Banking and SME financing had necessitated the development of separate Prudential Regulations for them, he added. Mr. Tawfiq Husain said with the appointment of experienced and effective Board of Directors and professional management of all banks, more discretion and flexibility is being given in the new Prudential Regulations to the banks. He said the previous Prudential Regulations had co-mingled different requirements. Therefore, these have been disaggregated into 4 different sections in the new Prudential Regulations – these are Risk Management, Corporate Governance, Know Your Customer and Anti Money Laundering and Operations, he added.

The Deputy Governor said that the State Bank of Pakistan has recently issued detailed guidelines on Risk Management for banks which are broader in nature and are meant to guide banks and help build up their internal capacity to prepare for Basle II Accord. It is the intention that as effective risk management capabilities are developed and implemented by the banks and as the corporate governance improves to the desired level, these Prudential Regulations will gradually be replaced with the Risk Management Guidelines. The Risk Management Guidelines are of advisory nature, cover the broader and policy parameters, and allow bankers greater discretion in all areas of operations.

He said the State Bank is also encouraging and promoting self-regulation through more transparency and greater disclosure. In this respect, substantial disclosure requirements have already been prescribed by State Bank of Pakistan to assist the stakeholders in making informed decisions. In order to improve the quality of the information being provided to general public and the stakeholders, State Bank is actively working with the banks/DFIs and their External Auditors.
