



MEMORANDUM OF UNDERSTANDING FOR PROMOTING FINANCIAL SYSTEM STABILITY BETWEEN THE MEMBERS OF THE NATIONAL FINANCIAL STABILITY COUNCIL

With a view to promoting financial stability and enhancing the inter agency collaboration, the Government of Pakistan has established the National Financial Stability Council (NFSC). This Memorandum of Understanding (MOU), drawn up among the Ministry of Finance (MoF), Government of Pakistan, the State Bank of Pakistan (SBP) and the Securities and Exchange Commission of Pakistan (SECP), sets out the operational aspects of the National Financial Stability Council (NFSC). This MOU describes the authorities' remits, tasks and roles to achieve the objective of the Council i.e. "to promote financial system stability".

For the purpose of this MOU:

- "Ministry" means Ministry of Finance, Government of Pakistan
- "Bank" means State Bank of Pakistan
- "Commission" means Securities & Exchange Commission of Pakistan
- "Party" means the Ministry, the Bank or the Commission, as the case may be
- "Parties" means Ministry, the Bank and the Commission, jointly referred
- "Providing" party means the party which provides information to the requesting party under this MOU
- "Requesting" party means the party making a request for information pursuant to this MOU

1. Membership

1.1 The Council's membership comprises representatives of the Ministry of Finance, Government of Pakistan, the State Bank of Pakistan and the Securities and Exchange Commission of Pakistan, as given below:

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| ▪ Advisor to Prime Minister on Finance & Revenue | <i>Chairperson</i> |
| ▪ Governor, State Bank of Pakistan | <i>Member</i> |
| ▪ Chairman, Securities and Exchange Commission of Pakistan | <i>Member</i> |

1.2 The Council shall decide about addition of any other member, if required in future. Besides, the Council may invite any person/expert/technocrat whose presence is deemed necessary for a meeting of the Council.

2. Mandate of the Council

- a) Deliberate on issues and trends in the financial system affecting financial stability;

- b) Discuss issues related to systemic risk, particularly those having cross market and stability implications and suggest a coordinated policy response to address the threats to the financial system stability;
- c) Identify financial reforms for pursuing financial stability.

3. *Scope and Coverage:*

The scope of the Council extends to the entire financial system covering financial institutions and insurance companies, financial markets and financial infrastructure.

4. *Frequency of meetings:*

The Council shall meet at least on half yearly basis; or more frequently if deemed necessary by the Council.

5. *Responsibilities of the Council and the Member Agencies:*

The Council's objective is to promote financial system stability. Each member is fully responsible for discharging its own responsibilities within its statutory mandate. Nothing in this MOU modifies in any way the ability and responsibility of the parties to enforce their respective statutes, rules and regulations. Nevertheless, the parties also have a joint responsibility to promote financial system stability, under the Council. The Council provides a forum for facilitating discussions and deliberations, close and efficient coordinated responses and identification of financial reforms for pursuing financial stability in the country.

Under the mandate, the Council's responsibilities are further elaborated as under:

5.1. *Deliberation on issues and trends in the financial system affecting financial stability;*

5.1.1 To promote financial stability, the parties shall regularly share information and data within the framework of applicable confidentiality laws, rules and regulations. It is essential for the parties to inform each other without delay, about their assessment of the issues and trends that may potentially affect the financial stability. In such circumstances, the parties will enhance the coordination and arrange for discussion and deliberations to come up with appropriate measures to mitigate the threats much before they potentially develop into a crisis situation. The Council members will deliberate on the issues and trends in the financial system affecting financial stability. As regards information sharing between the parties, the parties should inform each other about:

- The events or tendencies/trends bearing significance to financial stability.
- The work on crisis preparedness within each member organization and plans for concerted efforts with regards to crisis preparedness.
- Significant changes/modifications within the respective member organization, guidelines or instructions bearing significance for the work on financial stability and crisis management.

5.1.2 The Council may invite representatives of authorities, international financial organizations, civil organizations, ministries, enterprises as well as leading independent foreign and national experts to participate in the meetings. In this manner, the Council can take into account views of different target groups while making decisions that matter for financial stability.



5.2. Discuss issues related to systemic risk, particularly those having cross market and stability implications and suggest a coordinated response to address the threats to financial stability

5.2.1 Based on information sharing and mutual discussions and deliberations, if any issue (s)/trend(s) are found to potentially bear systemic risk particularly the ones having cross market and stability implications to the economy, the parties will enhance the frequency of coordination and escalate the level of coordination. The circumstances warranting enhancement of the frequency of coordination and escalation in the level of coordination include, but are not limited to, the following:

- a. Distress in a financial institution/insurance company with potential systemic implications;
- b. Disruption to the financial markets;
- c. Interruption to the smooth functioning of financial system infrastructure (including payment and settlement systems).

5.2.2 To resolve the above-mentioned situations, the Council, through effective and efficient coordination of the members, will come up with a coordinated response, which may include, but is not limited to:

- a. Maintaining and promoting the stability of, and public confidence in, the financial system.
- b. Protection of depositors in order to avoid or minimize losses where possible.
- c. Resolving the distress situation effectively and as quickly as feasible.
- d. Maintaining appropriate market disciplines and minimizing the economic and fiscal impacts of any financial distress resolution arrangements

5.2.3. In exercising their powers, the council members shall follow the following guiding principles for coordinated response:

- a. The response will be guided by the relevant statutory objectives of the individual member institution as well as the objectives of the Council referred to in this MOU.
- b. The impacts on the broader economy will be taken into account while considering the most appropriate means for resolving financial distress,
- c. Any resolution option will also take into consideration short- and long-term benefits, costs and risks.
- d. Communication between the member institutions will be timely, coordinated and focused on the information needs of stakeholders.
- e. Where relevant and practical/viable, the response to financial distress will take into account cross-border implications as well.

5.3. Identification of financial reforms for pursuing financial stability

In the event that the Council finds itself constrained to take the required measures for promoting financial stability, or the Council perceives its role constrained due to presence/absence of some structural and legal framework, the Council, after discussion and deliberations may identify areas of financial reforms for pursuing financial stability.

6. Restriction on Use of shared information

- a. Parties will ensure that the shared information is used in line with the mandate of this MOU and as approved by the Council from time to time
- b. Requesting party will seek approval from the providing party before making public or disclosing the shared information with any third party
- c. Each party will ensure the accuracy and relevance of the shared information

7. Retention and disposal of shared information

Parties shall ensure that applicable laws and regulations are followed for retention and disposal of the shared information

8. Confidentiality

- a. Each party agrees that the shared information for the purpose of this MOU is confidential and reasonable measures should be taken by the parties to keep the information confidential at all times
- b. This MOU does not exclude applicability of any applicable law intended to protect confidentiality of the information
- c. The confidential information may only be disclosed under the applicable laws provided reasonable notice may be given to the Providing party before the information is shared by the Receiving party

9. Entry into force:

This Memorandum of Understanding will begin to apply when all the parties have signed it. This MOU has been drawn up in three identical copies, with each party taking one copy.

Dr. Abdul Hafeez Shaikh

Advisor to Prime Minister on Finance & Revenue

Dr. Reza Baqir

Governor, State Bank of Pakistan

Aamir Khan

Chairman, Securities and Exchange Commission of Pakistan

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