

FCY loan, FIs can raise additional Tier 1 capital: SBP

KARACHI: The State Bank of Pakistan (SBP) has allowed financial institutions to raise additional Tier 1 capital in the form of Foreign Currency (FCY) subordinated loan from their existing foreign sponsors.

“The banks, DFIs and Microfinance Banks (MFBs) with majority foreign shareholding greater than 50 percent may raise Additional Tier 1 capital in the form of foreign currency subordinated debt or loan from their existing foreign sponsors,” said a SBP circular.

According to the SBP, FCY subordinated debt or loan will comply with all the terms and conditions (including the lock-in clause and loss absorption clause, etc) as applicable on similar transaction(s)/instrument(s) issued in local currency, ie, PKR.

As per the terms and conditions for the FYC loan, FCY debt/loan raised from foreign sponsors will only qualify for meeting the applicable requirement of Capital Adequacy Ratio (CAR) and the subject FCY debt/loan will not be considered for minimum paid-up capital requirements (net of losses) MCR, as applicable.

The FCY subordinated debt/loan will be categorized as “Additional Tier 1 Capital” for CAR purposes and the FCY debt/loan will be subordinated to all other claims of the bank(s) except claim of common shareholders and the bank(s) will formally execute the debt/loan subordination formalities with their foreign sponsors.

The admissibility of FCY subordinated debt/loan, for CAR purposes, will be subject to the limits as enforced through the applicable instructions. The subject FCY subordinated debt/loan will be extended by the foreign sponsors of bank(s) from outside Pakistan.

Foreign sponsors of the bank(s) will not borrow directly or indirectly from local financial institutions in Pakistan or from any overseas branch or subsidiary of Pakistani bank(s) to generate funds for the subject FCY subordinated debt/loan.

The amount of subject FCY subordinated debt/loan, so raised by the bank(s), will remain deposited with SBP and it will not be withdrawn without prior approval of the SBP.

The bank(s), with prior approval of SBP, may return the amount of FCY debt/loan to their foreign sponsors after five years from its receipt within SBP. However, the bank(s) will not be able to exercise the call option unless the called amount of FCY debt/loan is replaced with the capital of same or better quality.

The SBP will pay return @ “One (1) Year USD LIBOR minus 50 bps” to the concerned bank(s), on the deposited amount of FCY subordinated debt/loan with the SBP. This rate of return may be reviewed by the SBP, as and when deemed appropriate.

For accounting purposes, bank(s) may record the PKR equivalent amount of FCY subordinated debt/loan from foreign sponsors on the “Liability” side whereas on the “Assets” side, the same may be reflected as deposits with SBP. For revaluation purposes, daily Mark-to-Market (MtM) exchange rates are available at SBP website.

FCY subordinated debt/loan raised from foreign sponsors will be outside the limits on foreign currency borrowings as applicable on these bank(s) through FE rules. Bank(s), desiring to raise FCY debt/loan from their foreign sponsors, would be required to secure the SBP’s prior approval, in this regard.