PART II
Statutory Notifications (S. R. O.)

GOVERNMENT OF PAKISTAN
FINANCE DIVISION
(Budget Wing)

NOTIFICATION
Islamabad, the 21st May, 2020

S. R. O. 488(I)2020.— In pursuance of Rule-5 and Rule-23 of the Overseas Pakistani Savings Bills Rules, 2020 and in consultation with State Bank of Pakistan, the “Shariah Structure of the Islamic OPS Bills” shall be as under:-

Shariah Structure of the Islamic OPS Bills:

In order to allow overseas Pakistanis to invest in short term Government papers, GOP has decided to issue Overseas Pakistanis Savings (OPS) Bills in both conventional and Shariah compliant variants. The overseas Pakistanis will have the option to invest in the conventional or Shariah compliant Bills. The Shariah compliant bills ‘Islamic OPS Bills (IOPS Bills)’ are being issued based on Mudaraba structure whereby the investors will be investing in a Mudaraba

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Price: Rs. 10.00

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pool; which will onward be used to extend Shariah compliant financing to Federal Government. The investors will be remunerated from the profits earned by the pool. For the purpose, the Central Directorate of National Savings (CDNS) will establish an SPV namely Islamic National Savings Company (INSC) to issue the OPS Bills and manage the Mudaraba pool as Mudarib. As the Islamic OPS Bills are available in both USD and PKR, the INSC will maintain two separate Mudaraba pools for USD and PKR Bills. The Mudaraba Pools will maintain complete record of the investors, the date and amount of investments, the tenor of investments and the investments made by the pool. The SBP pool management guidelines may be followed to determine the profits and their allocation to the investors.

2. Following are the key product features and process flows:

1. **INVESTORS’ DIGITAL ON-BOARDING:**
   i. The IOPS Bills will only be available for Overseas Pakistanis having the FCY or NRAR accounts in the participating banks.
   
   ii. The Overseas Pakistanis not having these accounts will first open the accounts online in the Bank of their choice from amongst the participating banks.
   
   iii. The investors will visit the OPS portal/page on the PM Office website, which will have weblinks/interface with the participating banks.
   
   iv. The investors can also directly visit the OPS Page of the participating bank of their choice to open the online account and/or provide investment details.
   
   v. The OPS Portal/Page as well as the participating banks’ OPS Page will also contain details about the scheme, its Shariah Approval, Profit Sharing Ratio applicable on Mudaraba between investor and INSC, current weightage for each category of investment, expected rate of return, copy of Mudaraba term & conditions and related FAQs.
   
   vi. The Account holders after depositing/remitting the funds in their accounts will give their investment details on the bank’s OPS page; choosing IOPS, selecting the tenor of Islamic OPS Bills, currency and amount to be invested.
   
   vii. The participating Bank on receipt of this request shall debit the customer, account and credit the INSC account (temporary/transitory account) and Issue the security (unique identification code etc.) through an automated security allocation number showing the investor's investment in Mudaraba pool with INSC.
   
   viii. The participating Bank will also open investment portfolio securities account (IPS account) of the investor and credit the security
in that account and debit the INSC Securities account. The IPS accounts will be separate for OPS and IOPS investments.

ix. At the Day end, the bank shall transfer the consolidated amount to SBP for credit to INSC account with SBP; PKR funds will be sent to SBP through RTGS whereas USD will be credited to our Nostro Account with Federal Reserve.

x. Through an interface/API between INSC and the participating banks, INSC will be able to have live updates of the Islamic OPS bills credited in the IPS of participating banks. INSC will also be able to monitor the participating banks' own investment/deposit/placements balances with INSC.

2. INVESTMENT/PORTFOLIO AND POOL MANAGEMENT:

i. To manage the investment received from Investors INSC will maintain two separate investment pools i.e. One USD Pool and One PKR Pool.

ii. The funds in the Mudaraba pools shall only be used for extending Shariah compliant financing to Federal Government. To manage the, investment portfolio in a Shariah Compliant manner, INSC may, if needed appoint an Islamic bank(s) as Investment & Portfolio Manager (IPM) for:

   a. Portfolio Management in accordance with the objectives of the pool i.e. to extend Shariah compliant financing to Federal Government. This will also involve tasks like product documentation & accounting support, procedures for financing under Shariah compliance modes, structuring transactions with the government etc.

   b. Pool management to determine the profits of the pools and allocate the profits to the investors based on their tenors etc. they will also maintain record of investors, the date and amount of investments, the tenor of investments and the investments made by the pool.

iii. As the pools are exclusively meant for the Islamic OPS Bills, to minimize complexity the pools' resources will be utilized for financing to Federal Government under Sale & Lease back transaction with the Government against an identified asset. If needed, the PKR pool can also invest in GOP Ijara Sukuk. The USD pool — Investment will preferably be made in a Sale & Lease back transaction with Federal Government against an identified asset. (Both Liability & Assets will be kept in USD).

3. INITIAL INVESTMENT IN THE MUDARABA POOLS:

i. In order to provide initial investment required for establishment of each Mudaraba pool, selected Islamic banking institutions (IBIs) will be
invited to invest in USD & PKR Mudaraba pools and they will be eligible for profit share as per the mechanism of Mudaraba. INSC may also invest its own fund in each Mudaraba pool to facilitate smooth operation of the pool.

ii. The IBIs investment in the pool will be transitory in nature and will be retired/withdrawn on receipt of the investments in Islamic OPS Bills. Initially, the USD Pool of USD 30 million and PKR Pool of Rs.5 billion will be created to be equally subscribed by the selected IBIs as initial Joint investors (to be treated as one investor as the mechanism of withdrawal/retirement of investment is prescribed proportionately in the following para in both the pools).

iii. This initial investment by the IBIs is required to ensure that the pools have Shariah compliant earning assets before the investments in Islamic OPS Bills are received and the investment proceeds are invested the day, the same are received.

iv. The INSC shall use these funds to provide financing to Federal Government through sale and lease back of some identified asset (like M3) (in USD for USD pool or in PKR for PKR pool) or purchase of GOP Ijara Sukuk for the PKR pool. The tenor of the sale and lease back transaction shall be one year with quarterly rental payments. The rental rate may be equivalent to the expected rate on the 12 months Islamic OPS Bills; as the investments in OPS Bills would be in all tenors, this will enable the INSC to remunerate the investors at the rate equivalent/very near to the expected rate.

v. The IBIs Investment in the pools will be retired on receipt of investment in Islamic OPS Bills. For instance, assuming 10 IBIs invested 2 million each in the USD pool; if investments of USD 1 million are received on Day 1, the investment of participating IBIs will be proportionately liquidated by USD 100,000 and will be replaced by the Islamic OPS Bills Investors.

vi. Once the initial investment of USD 30 million by IBIs is fully liquidated, they will again tribute 30 million in the pool for executing the second tranche of sale and lease back transaction on the similar terms, and condition-3. This investment of the IBIs will gradually be liquidated on receipt of investments in the Islamic OPS Bills; the process will continue during the currency of the Islamic OPS Bills.

4. POOL MANAGEMENT & PROFIT/LOSS CALCULATION:

i. As stated earlier the Mudaraba pools can be managed in accordance with the SBP pool management framework. INSC shall develop necessary IT system to determine the profits earned by each pool and after deduction
of Mudarib share/fee its distribution/allocation to the investors based on their respective weightages.

ii. The weightages to the Islamic OPS Bills shall be assigned based on the tenor of the Bills with 3 months having the lowest weightage and 12 months bills the highest weightage.

iii. As the rates offered on Islamic OPS Bills are relatively higher to attract fresh FCY flows in the country and IBIs’ investments will be transitory in nature, the, IBIs will be assigned the weightage equivalent to 90 percent of the Islamic OPS Bills Investors. The IBIs will thus get 5.4 percent return on 12 months investment as compared to 6 percent for the OPS investors. The IBIs investments liquidated within four and half months will be remunerated at the 3 months rate, the investments liquidated after more than four and half months but less than 9 months will be remunerated at 6 months rate whereas the investments liquidated after 9 months will be remunerated at 12 months Bills rated.

iv. **For each Investment pool:**

   a. Profit Sharing Ratio (PSR) shall be announced at the commencement of investment in the Islamic OPS Bills.

   b. Similarly for each tenor/category of Islamic OPS Bills, weightage shall be assigned at the commencement of the Islamic OPS Bills.

v. At any point, the sources of funds in each pool, and the allocation of those funds (i.e. their utilization) must be known, balanced, and verifiable.

vi. **Income Calculation:** After each quarter end, income generated by all the assets in each investment pool will be calculated to arrive at the Gross Income of the Pool and after deduction of the allowed expenses and accordingly Monthly Profit of the pool will be calculated.

vii. **QUARTERLY PROFIT ALLOCATION, ANNOUNCEMENT & DISTRIBUTION:**

   a. At first level, Quarterly Profit of the pool will be divided among INSC (as Mudarib) and Investors (Raab ul Maal) as per the agreed Profit Sharing Ratio;

   b. At second level, the Investors’ profit share will be allocated among the participants of Investment pool as per the Weighted Average Investment of each investors category in the Investment pool and weight-age assigned to them. Subsequently, Profit rate for each category of Investor will be announced at the website.
c. Actual profit will be distributed and paid to the investor at Maturity or as per the terms agreed in case of early redemption / pre-mature encashment.

d. Loss Sharing: In case a loss occurs, the members of Investment Pool shall share it in ratio of their investment as per the rules of Mudaraba.

viii. Early redemption/ pre-mature encashment will be allowed after 1 month (As per redemption schedule).

ix. IN CASE OF EARLY REDEMPTION/PRE-MATURE ENCASHMENT:
   - After 1 month & before 3 months, the investor share will be redeemed at a discounted price (by applying a discount on the announced profit rates for that category of investor).

x. After 3 months investor will be given the profit of the nearest completed tenor.

xi. PAYMENT OF PROFIT & INVESTMENT AMOUNTS: At maturity or in case of early redemption/pre-mature encashment, the Investment amount and applicable Profit or Loss will be paid the Investor’s designated bank account and Investor’s IP’s account will be debited.

xii. Any surplus available with INSC as the Mudarib will return back to GOP on liquidation of the INSC.

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