

Banking Regulation and Policy Department
Bangladesh Bank
Head Office
Dhaka

BRPD Circular No: 02

Date: 13 Falgun 1425
25 February 2019

Managing Director/Chief Executive Officer
All Scheduled Banks in Bangladesh

Dear Sir,

Policy for Offshore Banking Operation of the Banks in Bangladesh.

Please refer to the letter no. BCD(P)744(27)/1416 dated-17 December 1985, S.R.O. no. 474-4/85 dated-12 November 1985, other relevant instructions in various circulars and circular letters thereafter and official gazette no. BRPD(P-3)/744(27)/2019-1682 dated- 25 February 2019 issued by Bangladesh Bank on the captioned subject.

2. Offshore banking (OB) has undergone a long developmental transition in Bangladesh due to the global and internal business dynamics. Since the initiation in 1985 in Bangladesh, concurrent global and internal business dynamics necessitate the revision and upgradation of the policy on offshore banking to streamline the operations. For this purpose, official gazette no. BRPD(P-3)/744(27)/2019-1682 dated- 25 February 2019 and BRPD Circular Letter no-03 dated- 25 February 2019 have been issued by Bangladesh Bank repealing the S.R.O. no. 474-4/85 dated-12 November 1985. In this situation being the said S.R.O. has been repealed, in exercise of the powers conferred by the Bank-Company Act, 1991 (amended up to 2018) and the Foreign Exchange Regulation Act, 1947, Bangladesh Bank makes the following set of instructions that shall have to be followed for conducting offshore banking in Bangladesh by the scheduled banks.

3. Definitions

As used in this circular, the following terms shall have the meanings indicated below unless the context clearly indicates otherwise:

- 3.1. "Domestic Banking Unit (DBU)" shall refer to a business unit of a bank that carries out banking operations other than offshore banking;
- 3.2. "Economic Zone (EZ)" shall refer to any economic zone declared by the Government under section 5 of the Bangladesh Economic Zones Act, 2010;
- 3.3. "Export Processing Zone (EPZ)" shall refer to a place or places to be specified by the Government under section 10 of the Bangladesh Export Processing Zones Authority Act, 1980 as an export processing zone for the purposes of setting up export oriented industries;

- 3.4. "Hi-tech Park" shall refer to a place specified by the Government under Section 2(6) of the Bangladesh Hi-Tech Park Authority Act, 2010 (Act No. VIII of 2010) as a categorically definitive zone to promote IT Industry in Bangladesh;
- 3.5. "Juristic Person" shall refer to an entity (other than a natural person) created by law as a legal entity having distinct identity, legal personality, duties and rights.
- 3.6. "Non-resident" shall refer to a person who is not a "Person resident in Bangladesh".
- 3.7. "Person" shall refer to an individual and others as defined in the Section 2(hh) of the 'Foreign Exchange Regulation Act, 1947 (Act no VII of 1947)'.
- 3.8. "Person Resident in Bangladesh" shall refer to a person as defined in the Section 2(hhh) of the 'Foreign Exchange Regulation Act, 1947 (Act no VII of 1947)'.
- 3.9. "Private Export Processing Zone (PEPZ)" shall refer to a private export processing zone declared by the Government under section 11 of Bangladesh Private Export Processing Zones Authority Act, 1996 for setting up export oriented industries;
- 3.10. "Offshore Banking" shall refer to the particular conduct of banking operations in foreign currencies conditionally approved by Bangladesh Bank;
- 3.11. "Offshore Banking Division" shall refer to the business management unit of a bank that controls and supervises the offshore banking operations; and
- 3.12. "Offshore Banking Unit (OBU)" shall refer to a specific business unit in the form of distinct branch, booth or desk of a branch of a bank that is duly approved by Bangladesh Bank to carry out the offshore banking.

4. Approval for conducting offshore banking in Bangladesh

Any scheduled bank willing to operate offshore banking in Bangladesh shall have to obtain approval from Bangladesh Bank. Offshore banking activities shall be carried out through Offshore Banking Unit/Units under the control and supervision of Offshore Banking Division of the bank.

- 4.1. A bank willing to operate offshore banking in Bangladesh shall have to apply to the Banking Regulation and Policy Department (BRPD) of Bangladesh Bank along with the information and documents as stated in 'Annexure: A'. Bangladesh Bank will assess the bank's overall performance as well as specific performance, evaluate the bank's capacity to operate offshore banking and do due diligence before giving the approval.

- 4.2. Along with the application for the approval of offshore banking or after getting the approval of offshore banking, a bank shall apply for permission of each OBU. There is no restriction on the physical location of the OBUs. They may be located either in the Export Processing Zones/Private Export Processing Zone/Economic Zones, or any other convenient location in Bangladesh. With prior approval from Bangladesh Bank, existing branches of banks may also be allowed to operate offshore banking through separate desk. Authorization of Bangladesh Export Processing Zones Authority (BEPZA)/ Bangladesh Private Export Processing Zones Authority (PEPZA)/ Bangladesh Economic Zones Authority (BEZA)/other similar designated authority, if intended to locate the OBU therein, is a prerequisite before approaching to Bangladesh Bank.
- 4.3. Banks that are currently operating offshore banking unit under the approval of Bangladesh Bank shall also apply for approval for offshore banking operation and for updating the approvals of OBUs along with the information and documents as stated in 'Annexure: A' within 3 (three) months of the issuance of this circular.
- 4.4. The bank applying for the approval of offshore banking operation must have well-established correspondent relationship with reputed banks/financial institutions abroad and links with important international financial centers.
- 4.5. Closure of a bank's offshore banking operation as well as closure/shifting/merging of any OBU requires prior permission from Bangladesh Bank.

5. Commencement of Operation

- 5.1. The bank shall commence their offshore banking operation within 6 (six) months or the time period subsequently extended by Bangladesh Bank from the issuing date of approval. Non-compliance regarding commencement of operation within the stipulated time period will automatically lead to cancellation of the permission for offshore banking.
- 5.2. Date of commencement of the offshore banking operation of a bank or of an OBU shall be notified in writing to Banking Regulation & Policy Department, Department of Off-site Supervision, Foreign Exchange Policy Department, Foreign Exchange Operation Department, Foreign Exchange Investment Department, Department of Foreign Exchange Inspection, Forex Reserve and Treasury Management Department, Monetary Policy Department, Department of Currency Management, Payment Systems Department, concerned Department of Banking Inspection, Motijheel Office, and the concerned office of Bangladesh Bank within 7(seven) days of such commencement.

6. Operation/Transactions of offshore banking

6.1. With enterprises in EPZs, PEPZs, EZs and Hi-tech Parks

6.1.1. With fully foreign-owned enterprises

Offshore banking operation/transactions with fully foreign-owned enterprises in EPZs, PEPZs, EZs and Hi-tech Parks shall include nothing other than accepting deposits, making short term loans/advances and investments, discounting bills, negotiating bills, issuing letter of credit and guarantee. However, prior permission from the Foreign Exchange Investment Department of Bangladesh Bank is required in accordance with the instructions/circulars issued from time to time before making any medium and long term financing facility to the said enterprises.

6.1.2. With enterprises other than fully foreign-owned

With prior permission from the Foreign Exchange Investment Department of Bangladesh Bank, banks, as part of their offshore banking, may make loans/advances to the enterprises other than fully foreign-owned in EPZs, PEPZs, EZs and Hi-tech Parks.

6.2. With Juristic persons not resident in Bangladesh

Offshore banking transactions with the juristic persons not resident in Bangladesh shall include nothing other than accepting deposits and borrowings. However, with prior permission from the Foreign Exchange Investment Department of Bangladesh Bank, banks, as part of their offshore banking, may also make loans/advances to the juristic persons not resident in Bangladesh provided that the full amount of loan/advance is covered by (a) guarantee/letter of credit from a licensed bank abroad with acceptable credit rating, and/or (b) foreign exchange brought in from abroad and deposited in a bank in Bangladesh.

6.3. With natural persons not resident in Bangladesh

Offshore banking transactions with the natural persons not resident in Bangladesh including Bangladeshi nationals working abroad (NRBs) shall include nothing other than accepting deposits.

6.4. With persons residents in Bangladesh

A bank, in its offshore banking operation, may discount bills accepted by ADs in Bangladesh against import L/Cs opened on deferred/usance basis applying due diligence and arrange payment to overseas suppliers.

7. Limitation on activities

Banks are prohibited from the following activities in offshore banking operation:

- 7.1. Engage in any direct or indirect, funded or non-funded banking transactions that goes beyond transactions specified in paragraph 6;
- 7.2. Accepting deposit or loan which is repayable on demand by cheque, draft, pay order or any other instrument drawn by depositor on the offshore banking unit;
- 7.3. Placement of fund to DBU.
- 7.4. Any transaction using the Nostro Account of the domestic banking operation.
- 7.5. Remittance of money to any overseas destinations other than for the operation/transactions stated in paragraph 6;
- 7.6. Granting credit facilities to its 'Bank Related Persons' as defined in section 26Ga of the Bank-Company Act, 1991 (amended up to 2018) exceeding the quota prescribed by Bangladesh Bank from time to time even if any of them are NRBs.

8. Prudential regulations

- 8.1. The banks shall have written guidelines approved by their Board of Directors for conducting offshore banking operation.
- 8.2. No dealing shall be made for any speculative purpose.
- 8.3. Assets and liabilities created by offshore banking operation shall clearly be identified at the time of such creation.
- 8.4. Bank shall maintain separate accounts relating to their offshore banking business for assessing financial performance and other purposes. But offshore banking operation shall be included in equivalent Bangladeshi Taka (BDT) denomination while preparing solo basis financial statements of the bank treating it as a business line.
- 8.5. The records of exchange position in foreign currencies of a bank (country office in Bangladesh, in case of foreign banks) shall include exposures of the offshore banking operation, if any. Banks shall maintain their overall exposures in foreign currencies (overall exchange position) within the 'Open position limit' at the end of the day as stated therein.
- 8.6. Instructions of Asset Liability Management (ALM) guidelines shall be applicable for offshore banking operation.
- 8.7. At the close of business on any day, value of offshore banking assets in Bangladesh shall not be less than 75% of the liabilities of offshore banking.
- 8.8. Source of funds for offshore banking operation shall be the deposits and borrowings received as stated in paragraph 6. However, banks may also use funds mobilized from other sources (domestic banking operation) with a limit not exceeding 20% of its total regulatory capital.

- 8.9. Banks shall have to comply with the Money Laundering Prevention Act, 2012, Anti Terrorism Act, 2009 and such other applicable regulations while conducting their offshore banking business.
- 8.10. Regulation regarding maintenance of capital, leverage and liquidity ratios under Basel provisions shall be duly observed by offshore banking operation. For the maintenance of capital that entails to offshore banking, if required, banks may use funds from offshore banking operation and convert to BDT.
- 8.11. For the maintenance of Cash Reserve Ratio (CRR), total demand and time liabilities of the bank shall include the liability of offshore banking operation. Statutory Liquidity Reserve (SLR) shall also be maintained accordingly. For the maintenance of CRR and SLR that entails to offshore banking, if required, banks may use funds from offshore banking operation and convert to BDT.
- 8.12. Unless stated otherwise, all regulatory limits imposed by Bangladesh Bank regarding funded and non-funded exposure shall be applicable for offshore banking operation.
- 8.13. Offshore banking transactions of a bank are subject to periodic reporting to Bangladesh Bank. Bank shall report their offshore banking transactions in relevant statement/schedules in writing as well as report to online web portal as per instructions mentioned in FE circular/circular letters. Besides, they shall submit reports/returns to different departments of Bangladesh Bank as and when asked for.
- 8.14. Banks have to report their offshore banking operation to Bangladesh Bank in a separate Classified Loan Statement (CL-1) named OBU Summary of Loan Classification and Provision. All exposures provided by offshore banking shall be reported in the statement and adequate provision shall be maintained as per the requirement thereon.
- 8.15. Banks having license for Islamic Shariah based banking services will be allowed to provide Islamic Shariah based banking services through offshore banking.
- 8.16. Information of credit extended through offshore banking shall be subject to report as per CIB regulations of Bangladesh Bank.
- 8.17. Operation of offshore banking along with the sources and uses of funds shall be subject to offsite and onsite supervision by Bangladesh Bank.

9. Termination and/or amendment of the approval for offshore banking

Bangladesh Bank reserves the right to amend/postpone/revoke the approval for offshore banking operation of a bank or of any OBU. The approval may be revoked by Bangladesh Bank at any time without showing any reason if, in the consideration of Bangladesh Bank, the approval has contravened any instruction or regulation of Bangladesh Bank. In the case of revocation of approval, after an appropriate time interval with recaptured financial soundness, a bank may again apply for new approval following the process described in paragraph 4.

- 10.** This policy shall come into force with an immediate effect and the applicability of the letter No. BCD(P)744(27)/1416, dated- 17 December 1985 will be superseded thereon. All the contracts made within the purview of previous regulation will continue to their usual expiration. Any policy departure on a bank's part caused by this new policy will be handled amenable provided the bank reports the policy departure to Banking Regulation and Policy Department (BRPD) for approval within 2 (two) months from the circulation of this policy.

Yours faithfully,



(A.K.M. Amjad Hussain)
General Manager
Phone: 9530252

A. INFORMATION TO BE PROVIDED IN THE APPLICATION FOR PERMISSION OF OFFSHORE BANKING OPERATION

1. Name & Address of the Bank (Head/Country Office).
2. Date & place of incorporation list of affiliations, directors and the corporate set up.
3. Name of Stock-Exchange(s) where the Bank is listed.
4. Brief description of the specialized activities and past experience of the bank.
5. Whether the bank is represented in other Offshore Financial Centre(s) of the world either directly or indirectly through associates and subsidiaries. If so, please mention the name of the financial centre(s) with brief account of operations in those financial centre(s).
6. Liquidity and solvency position, net worth and resource base and managerial & international banking expertise of the bank.
7. Describe how the bank would benefit Bangladesh in developing the offshore market/financial centre
8. Describe how the bank proposes to fund offshore banking operations in Bangladesh
9. Estimated volume of offshore operations for the next 3 years (limits of assets & liabilities).
10. Brief description of deposit insurance scheme of the bank, if any.
11. Training facilities that will be made available to the staff.

B. DOCUMENTS TO BE ENCLOSED

1. Copy of board approved guidelines for conducting offshore banking operation.
2. Copy of Board approval.
3. Certified copy of Memorandum and Articles of Association.
4. Copy of Letter of Authority from supervisory authority approving the bank for operating Offshore Banking Unit in Bangladesh.
5. Annual Reports, Balance Sheets & Profit loss Accounts of the Bank for the preceding 3 years.
6. Performance of the other OBUs, if any, for the preceding 3 years operating by the bank.
7. Organizational Chart of the proposed offshore banking operation.