

Foreign Exchange Operations



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Foreign Exchange Operations Department (FEOD) of SBP Banking Services Corporation has been established to manage the requests from different stakeholders in area of foreign exchange. FEOD monitors the landscape of foreign exchange operations with the aim to curb unethical practices and undertake actions against unscrupulous entities, persons and Authorized Dealers (ADs) under the Foreign Exchange Regulation Act. Another important task it performs is to grant approval to the delegated transactions as per Foreign Exchange Manual.

4.1 Foreign Exchange Operations Department

Foreign Exchange Operations Department's prime functions include granting of approvals for Government, private and commercial foreign exchange remittances, besides monitoring of FX transactions and follow up with delinquent exporters to ensure repatriation of export proceeds. The Department is also entrusted with the responsibility of making payment to exporters under various subsidy schemes of the Government. FEOD provides services to Development Finance Group of SBP in ensuring compliance to instructions relating to Part II of the Export Finance Scheme by verifying EE-1 and EF-1 statements submitted by exporters through banks. Further, implementation of Web-Based One Customs (WeBOC) – a joint project of SBP and Pakistan Customs – and operations of SBP and Customs joint booths at airports for facilitating the export of currencies other than US\$ and import of US\$ has led to potential enhancement of FEOD's role.

4.2 Developmental Initiatives

FY17 has remained an eventful year due to significant changes in the regulations, considerable rise in operational assignments and momentous changes in the management at divisional as well as group level. The evolving FX landscape resulted into issuance of instructions and guidelines to ADs for ensuring compliance with the foreign exchange regime by all stakeholders. Further, FEOD provides feedback to the Exchange Policy Department of SBP and other Government agencies in the light of experience it encountered in FX operations.

During FY17, FEOD has accomplished key milestones with the collective efforts of various stakeholders in the areas of automation, capacity building and process improvement. The performance highlights of FEOD's operations during the year are embodied in **Box 4.1**.

Box 4.1: Performance Highlights for FY17

- Strengthened the process regarding monitoring of FX trade transactions by using WeBOC, Export Overdue Reporting System and International Transaction Reporting System.
- Established a dedicated Unit at Lahore for monitoring of trade related transactions.
- Initiated the automation of workflows and prepared the Business Requirement Document (BRD) for the Knowledge Management System.
- Approved around 17,000 cases of commercial, private and trade related remittances.
- Lodged 2,061 cases to FEA Courts, besides referring 71 cases to FIA against delinquent exporters, importers and ADs for legal proceedings.
- Identified and recovered US\$ 18.25 million of duplicate import payment and levied penalties of Rs 45.08 million against import advance payment.
- Repatriation of US\$ 317.67 million from overdue export proceeds through effective follow up at the departmental level.
- Disbursement of Rs 30 billion on account of all subsidy schemes of Government.
- Verification of 577,478 entries of EE-1/EF-1 Statements.
- Approved 11,341 cases of Government's FE allocation valuing Rs 205 billion.
- Verified genuineness and status of 39,021 E-Forms forwarded by Pakistan Customs.
- Developed and conducted capacity building training programs for ADs, SBP and SBP BSC employees in order to improve their technical capacity regarding FX operations.

4.2.1. Emphasis on Automation

With the increase in international trade transaction on an overall basis, the quantum of workload at FEOD has increased manifold during the last few years. Though the Department has been making all endeavors to cope with the increased quantum of work, the fact remains that without automation of the departmental workflows, it will not be possible to achieve optimal efficiency, particularly with regard to monitoring of FX transactions. Taking this fact into consideration, the automation project regarding verification of EE-1/EF-1 statements was initiated by FEOD in FY16, in coordination with Development Finance Support Department (DFSD), Statistics & Data Warehouse Department (S&DWD) and Information Systems Department (ISD). The project, which has completed its development this year, was conceived to eliminate the arduous process of manual verification of EE-1/EF-1 statements and improve the efficiency in the assessment of the export performance of exporters and allocation of limit for Export Finance Scheme Part-II. The project is ready and shall be made fully operational in FY18.

In order to enhance the monitoring of international trade through Electronic Import Form (EIF) and Electronic Export Form (EEF), the Department has initiated efforts to establish Electronic Data Interchange (EDI) with Custom's WeBOC System. The EDI is expected to facilitate not only in monitoring, but will also be used for radically changing the procedures adopted for subsidy schemes and export overdue reporting etc. For this purpose, numerous meetings have taken place between FEOD and ISD team with Customs Department and initial documentation has been completed for setting up EDI.

Similarly, in order to improve the control environment and efficiency, a project has been initiated to automate certain functions of the Department related with the processes of approving commercial & private remittances and payments of Government subsidy schemes. FEOD, in coordination with IT Strategy & Project Management Department (ITS & PMD), is in the process to automate end-to-end process through acquisition of off-the-shelf software solution.

Moreover, SBP and the Customs Department have four joint booths at Karachi, Lahore, Islamabad and Peshawar Airports for monitoring of export/import of bank notes by Exchange Companies in accordance with the prescribed procedure. During FY17, Airport booths processed FX transactions involving around US\$ 830 million (export and subsequent import). In order to improve the control over booth operations, FEOD has been trying to develop, with the coordination of ISD, Airport Booth System (ABS). ABS is a system used for recording and maintenance of database of FCY cash currency export and equivalent US\$ cash Import from joint SBP and Customs Airport booths by Exchange Companies. The beta testing of ABS is under process, which is expected to be functional at Airport booths by September, 2017.

4.2.2. Process Improvement for Quick Disposal of Private & Commercial Remittances Cases

The Department has been working strenuously towards bringing greater efficiency and accountability to work. To this end, it managed to improve its disposal rate by ensuring the implementation and compliance of standardized formats for submission of cases by ADs, which was introduced during FY16. Operations Division has carried out rigorous reinforcement and sensitization of ADs to perform proper due diligence before referring cases to SBP BSC so that these are free from discrepancies when submitted. The Department has actively put in place a suitable evaluation process with a view to assessing the genuineness and admissibility of different requests of ADs for various outward remittances in compliance with the instructions of EPD and generally accepted business practices. A project was undertaken with the objective to define Turn-Around Time (TAT) or Benchmark Days required for processing of cases taking into consideration all the ancillary factors affecting disposal. Moreover, activity-based analysis of Operations Division was carried out to develop a model, so as to determine the minimum days required for processing of different cases. The analysis has provided better understanding of the procedure involved for case processing and hence improved the resource utilization.

4.2.3. Monitoring of all functions of FEOD at Country Level

An initiative to maintain Management Information System (MIS) of all functions of FEOD at the country-level was taken, thereby developing adequate formats to capture data regarding work performed by the entire Department and Foreign Exchange Operation Units at eleven Field Offices. The MIS includes information related to cases pertaining to Commercial/Private Remittances, Payment of Subsidies, Returns, Import Advance Payment, Open Account Remittance received at FEOD and their disposal as well as aging of outstanding cases at the end of each month. Performance of each division is being monitored and corrective actions are taken, if required. Further, this has enabled the development of a Centralized Database of information readily available for the management, as and when required, besides improving turnaround time through effective follow up of outstanding cases.

4.2.4. Capacity Building Initiatives

The skill set and capacity of officers dealing in foreign exchange appeared to have misaligned with the changing dynamics over a period of time, resulting in exploitation by the unscrupulous elements. This, at times, not only adversely affects the flow of foreign exchange in interbank market, but is also a violation of instructions of EPD. In order to improve the capacity of officers working in SBP BSC and also for those assigned the responsibility in the areas of trade finance and FX by ADs, FEOD had arranged various training programs to equip them with the existing FX knowledge and complexities of the fast-changing scenario in the arena of international trade as well as foreign exchange regime of Pakistan. For the purpose, a 12-day Foreign Trade Certification Program was introduced with the help of National Institute of Banking & Finance (NIBAF). In this regard, two sessions have successfully been organized at Karachi and Islamabad. More than 50 participants attended these sessions who completed necessary training leading to award of the required certification. In order to bring synergy in FX operations, FEOD has planned to suggest to SBP that this certification may be made mandatory for officers of banks to work in foreign exchange related assignments to bridge the gap between the regulators and ADs in respect of trade issues. FEOD had also arranged 'short duration training programs' for officers of ADs and trade associations. Moreover, efforts have been made to enhance knowledge-base of officers of both SBPBSC and ADs regarding the issues having indirect forward and backward linkages with foreign exchange operations. FEOD has also arranged attachment program for its officers with commercial banks.

4.3 Monitoring & Enforcement

The Department has continuously been making endeavors to properly follow-up the cases of export overdue to ensure repatriation of export proceeds. Further, concerted efforts were made for effective monitoring of outflow of foreign exchange by importers, shipping companies, airlines and freight forwarders.

4.3.1. Realization of Export Proceeds and Adjudication Process

In terms of SBP's instructions, exporters are required to realize exports proceeds within the stipulated time from the date of shipment. In this regard, FEOD vigorously followed the exporters for repatriation of stuck-up export proceeds, based on data of Export Overdue, as reported by commercial banks in Export Overdue Reporting System (EORS). The Department managed to get repatriation of US\$ 317.67 million from overdue export proceeds in FY17 as compared to US\$ 301 million during FY16. Complaints against 1,737 delinquent exporters were filed with the Foreign Exchange Adjudication Department (FEAD) under Section 12 (1) of FERA, 1947. For the last few years, FEOD is filing complaints against the Authorized Dealers who have failed to submit shipping documents and ensure due diligence required by FE Manual and SBP instructions. During FY17, FEOD has filed 324 complaints with FEAD against ADs.

4.3.2. Monitoring of Import Payments

As a result of monitoring and verification of import data, especially import against open account, duplicate payments of US\$ 128 million have been identified. Out of this, US\$ 40 million has been

established with related shipping documents and US\$ 20.8 million has been repatriated. For the remaining amount, documents are being called from banks for further investigation. Further, as a corollary, regulations were revised and strengthened with the help of EPD and banks were advised to send all cases for approval to FEOD where original transport documents were missing. Therefore, 5,972 cases were approved by FEOD during FY17. The automation of I-Form has further eased the monitoring process and reduced the occurrence of duplicate import remittance against the same set of documents. Automation of import form enables the FEOD to effectively monitor advance payment and ensure imports of goods within the regulatory time frame as well as for valid purposes. During FY17, a penalty of Rs 45.08 million has been recovered from importers through banks upon their failure to import goods/repatriate advance payment within four months from the date of advance payment.

FEOD identified that ADs allowed importers to send remittances on the assessed value by Customs, instead of declared value. Since no FX regulation was in place to prosecute such importers, FEOD recommended to the EPD to issue regulation which has now been incorporated in FE instructions issued in August 2016.

4.3.3. Verification of E-Forms Forwarded by Customs Authorization

During FY17, a total of 39,069 E-Forms forwarded by Customs has been verified from Authorized Dealers and appropriate actions already taken against delinquent exporters/ADs under provisions of FERA, 1947.

4.3.4. Scrutiny and Payment of Subsidy Schemes:

FEOD has been entrusted to make payments for subsidy under different schemes announced by various Ministries of the Government of Pakistan. During FY17, twelve subsidy schemes were effectively handled with limited HR, which is the highest number of schemes ever handled by FEOD. These schemes vary in nature, scope and processing cycle. Some schemes were based on exports whereas remaining on imports; few schemes were based on individual transactions such as:

- Drawback on export of textile products,
- Drawback on export of non-textile products,
- Subsidy on export of wheat and sugar,
- Support on import of plant and machinery,
- Subsidy on import of fertilizer and subsequent local sale etc.

Other schemes were of incremental nature wherein entire exports of one year were compared to the previous year to determine admissibility of drawback. Under this category, a case may contain several thousand individual transactions which are to be verified separately from various documents. An amount of approximately Rs 30 billion was disbursed in FY17 against Government subsidy schemes as compared to Rs 5.94 billion in FY16, in line with the policy announcements by the respective Ministries. Out of Rs 30 billion, Rs 21.7 billion alone were disbursed against fertilizer subsidy on behalf of Ministry of National Food Security & Research. During the year, FEOD had to augment HR strengths of its units working in different fields to ensure timely payments. Special arrangements were also made to process and disburse subsidy payments of Rs 1.5 billion, budget for which was released by the Federal Government only two working days prior to close of FY17.

4.3.5. Monitoring and Verification of FE Returns:

With the growth of international trade in Pakistan, the volume of FE returns with supporting documents has continued to rise. During FY17, a total of 1.505 million forms (E, I, M, R/IRV, T-1, Hajj) along with supporting documents was received and archived by FEOD. Out of these, 194,438 'M' & 'I' forms were scrutinized as per laid down criteria. On a test check basis as all other transactions were reviewed on risk-based monitoring criteria in terms of which the soft data submitted by banks is reviewed by the Department on electronic basis. Therefore, a proposal for non submission of paper-based forms and returns has been moved and a circular was issued for discontinuation of submission of returns. The

Department also verified 577,478 EE-1/EF-1 entries during FY17 for assessment of the export performance of exporters as compared to 569,878 in FY16.

This year, the Department intensified its focus on the use of FE data reported by banks to Statistics & Data Warehouse Department of SBP as part of its International Transaction Reporting System (ITRS). Discrepancies including wrong reporting of E-Form number, I-Form number, Uniform Identification Number (UIN) of export advance payment vouchers and National Tax Number (NTNs) were identified in monthly ITRS reporting and communicated to ADs for rectification. Besides, the Department completed more than 5,800 revisions in ITRS requested by banks. As a result of persistent efforts made during the year, discrepancies in ITRS data have been reduced by a large margin in the data reported by banks during July 2016 to May 2017.

4.4 Future Outlook

While responding to the emerging requirements of a robust and effective monitoring mechanism for foreign exchange transactions, coupled with providing efficient services to its stakeholders, FEOD has envisaged its future outlook on three pillars i.e. automation, improving process efficiencies and capacity building.

The Department is moving towards a paperless work environment to the maximum extent, thereby initiating the numerous IT-based projects. Above all, it is destined to fetch a prominent position among those departments in SBP and SBP BSC where concept of knowledge management will be implemented in processing of various cases referred to it by its stakeholders, particularly banks and private and public companies. FEOD has also initiated a data integration project which collates the information residing at different FX data sets on SBP servers that will enable the Department to monitor foreign exchange transactions, including realization of export proceeds, remittances against import and other inward/outward remittances etc. The project is going to potentially create a paradigm shift in the monitoring of trade and remittances, providing a broad and comprehensive view of all foreign exchange activities undertaken by a particular business entity.

FEOD is also working on a project for development of Exporters Information Portal duly integrated with Export Overdue Reporting System (EORS) application with the collaboration of Information Systems Department and Statistics & Data Warehouse Department. This portal would help banks to view the total outstanding position of overdue and certified E-Forms of exporters as well as to take informed decision before issuance and certification of E-Form to them. The proposed system would also enable the banks to conduct enhanced due diligence before acceding to the request of exporters for certification of E-Forms.

In order to facilitate ADs' learning and knowledge of FE rules and regulations, an FAQs (Frequently Asked Questions) Document would be compiled on FX operations, addressing areas of FE Manual that need clarification with regard to interpretation of FE rules and regulations.

FEOD will continue to improve its partnerships with all stakeholders for ensuring better foreign exchange management and compliance of regulatory instructions. A comprehensive record management plan has been initiated by FEOD to efficiently manage its record placed at various locations of Karachi. Since all FE returns are submitted electronically including 'E' and 'I' form, therefore, it has been decided with the concurrence of EPD that going forward submission of hard copies of various returns/forms by commercial banks would be done away with. These hard copies may be kept by banks themselves. FEOD may call these return/forms (hard copies), in case of need.