

# Foreign Exchange Operations





## 4 Foreign Exchange Operations

*Foreign Exchange Operations Department (FEOD) manages the operational aspects of foreign exchange matters as per Foreign Exchange Manual and instructions of Exchange Policy Department of SBP. FEOD's role has been strengthened by shifting its focus from transaction processing to monitoring of transactions of foreign trade and their verification on offsite basis. FEOD, inter alia, aims to facilitate its stakeholders by providing efficient services, ensure timely repatriation of export proceeds and payments of import in line with the regulations. To achieve its objectives, the Department has been emphasizing on re-engineering of its business processes and their automation, especially through knowledge management project.*

### 4.1 Foreign Exchange Operations Department

Foreign Exchange Operations Department is one of the core departments of SBP BSC. Its prime functions include approving trade, commercial and private foreign exchange remittance transactions, off-site monitoring of trade & business-related FX transactions<sup>11</sup>, ensuring timely repatriation of export proceeds and allowing payment of FX import as per regulations. The Department is also entrusted with the responsibility of making payment to exporters under various schemes announced by 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 exporters' performance against the loan limit availed by them. In this regard, FEOD verified 643,404 EE/EF entries in FY18 as compared to 577,478 in FY17. The amount so verified is used to determine the performance against the loan limit used and formulate loan limit under part II of EFS for the subsequent year. 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 USD and import of USD has led to the enhancement of FEOD's role.

During FY18, 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 mentioned in **Box 4.1**.

#### **Box 4.1: Performance Highlights for FY18**

- Enhanced controls by business process reengineering, reallocating duties, establishing benchmarks for disposal of cases, centralizing monitoring through MIS and automation.
- Completion of all steps of Knowledge Management, submission of Business Requirement Document (BRD) for data universe and Electronic Data Interchange (EDI) with WeBOC.
- Reconciliation of Export Advance Payment resulted in marking of more than 30% of outstanding amount.
- Elimination of submission of physical returns where data is being received through system.
- Issued instructions for reporting of export overdue (EOD) on the basis of WeBOC data, thus ensuring timely reporting of export overdue cases.
- Proceeds against USD887 million worth of export overdue cases are repatriated as compared to USD325 million of FY17 without adjudication.

<sup>11</sup> The monitoring and oversight of forex market relating to reserves is the responsibility of DMMD of SBP.

- Referred 13,420 complaints to FEAD (2,061 in FY17); 49 cases of fake E-Forms to Customs Adjudication.
- Verified genuineness of 47,288 E-Forms forwarded by Customs (39,021 in FY17).
- Approved more than 19,000 cases of commercial, private and trade related remittances (17,000 in FY17).
- Identified instances of non-issuance of marine insurance cover against Import on open account.
- Explanation was called from ADs in 3,400 cases for non-adherence of regulatory instructions in open account.
- Disbursement of around Rs 50 billion under various schemes of Government (Rs 30 billion in FY17).
- Verification of 643,404 entries of EE-1/EF-1 statements (577,478 in FY17).
- Identified the areas for policy instructions, provided feedback to EPD for revision of FEM 2017 and penalty framework under section 23K of FERA.
- Developed e-learning module and conducted capacity building training programs for ADs, SBP and SBP BSC officers. Arranged attachment programs with HOK, ADs and Customs Authorities.

### 4.2 Developmental Initiatives

FY18 has remained an eventful year as a number of important initiatives including improving operational infrastructure surrounding the processing of transactions were pushed to advance stages. The evolving FX landscape resulted into issuance of instructions and guidelines to Authorized Dealers (ADs) for ensuring compliance with the foreign exchange regime by all stakeholders. Further, FEOD provided feedback to the Exchange Policy Department of SBP and other Government agencies in the light of its experience in managing FX operations with an aim to further streamline the regulatory framework.

The volume of transactions handled by FEOD is in hundreds of thousands and without automation it is not possible to process the transactions efficiently. Further, these transactions are processed at HOK and 12 Field Offices. In order to ensure proper controls without compromising the efficiency, FEOD has taken various initiatives. In this regard, a project was initiated in FY17 for automating end to end functions of the Department; subsequently the project was made part of Knowledge Management (KM). FEOD was selected as the first Department for the implementation of KM and it has completed all the groundwork. Master Taxonomy sheets and case processing formats have been finalized with the Consultant. At present, software development is in process and is likely to be available for User Acceptance Test (UAT) in Q2FY19. An orientation session was arranged for the banking industry to apprise them of the upcoming project and form a focus group of ADs. In addition, FEOD is facilitating rest of the departments of SBPBSC in developing Master Taxonomy sheets and case processing formats.

The skill set and capacity of officers dealing in foreign exchange over the years have become mismatched with the changing dynamics of FX. In order to improve the capacity of ADs and its own officers, FEOD had arranged various training programs to equip them with the complexities of the fast-changing scenario in the arena of international trade as well as foreign exchange regime of Pakistan. A 12-day Foreign Trade Certification Program was introduced with the help of National Institute of Banking & Finance (NIBAF). A module of e-learning was also developed for officials of SBP and SBP BSC.

FEOD has identified the areas where policy instructions are required to be issued or need elaboration, besides providing feedback to EPD on revision of various chapters of FEM and to the Off-Site Supervision and Enforcement Department (OSED) on the penalty scale under section 23-K of Foreign Exchange Regulation Act, 1947.

### 4.3 Re-engineering of Functions

FEOD has realigned its functions to improve its internal controls and bring efficiency. FEOD operates through twelve Foreign Exchange Operations Units (FEOU), which are managed by Chief

Managers. One of the goals of the Department is to bring efficiency and improve skill set of officers across all Field Offices at the same level. Management Information System (MIS) was introduced last year for commercial and private remittances; remaining areas were included in the current year. This facilitated establishment of benchmarks for disposal of cases and as a result, the turnaround time for disposal of cases has improved substantially.

In order to ensure better coordination among key officials of FEOD across SBP BSC, 'FX Forum' comprising In-charges of all Field Offices, Chief Managers, FEOD's Divisional Heads, Departmental Head and Group Head was developed. FEOD conducted the first meeting of FX Forum under the Chairmanship of MD SBP BSC in which the participants were apprised of the initiatives taken by Head Office, future direction of FEOD and identification and resolution of problems faced by the Field Offices.

In order to address the issues in processing payments of Government Schemes due to volume of work and lack of due diligence on the part of ADs, processing mechanism of new schemes of textile and non-textile for 2018 was revised. Excel-based calculator developed for this purpose was integrated with data of WeBOC. It enhanced the efficiency by reducing the redundant steps and made the record keeping very easy as compared to other Government schemes.

#### 4.4 Commercial, Private and Trade Remittances

Emerging market conditions and dynamic business needs have made it necessary that various risk dimensions of cross border transactions are analyzed. In this regard, FEOD has moved away from rudimentary case scrutiny to a more thorough, broad-spectrum risk based assessment. International Transaction Reporting System (ITRS) and WeBOC data is being utilized to analyze inward and outward FX transactions executed by a particular company. Economic benefit assessment, FDI received, technology transfer to Pakistan and local skill development are crucial factors used to evaluate cases processed at FEOD. During FY18, more than nineteen thousand cases of commercial, private and trade related remittances, including remittances against FE allocation involving an amount of USD 3.9 billion and exposure of USD 89.3 million through issuance of bank guarantees were processed.

Incorporation of enhanced due diligence and in depth scrutiny in operational processing of cases has led FEOD to identify and initiate regulatory actions against Authorized Dealers, Auditors and Applicants, wherever it was revealed that a stakeholder has acted outside its delegated capacity. FEOD has held industry wide meetings with shipping companies, local & foreign airlines, automobile sector, international retail and hotels association to get a macro view of the challenges being faced by these sectors. Subsequently, FEOD has forwarded its findings to Exchange Policy Department, thereby playing a crucial role in revision of instructions of Foreign Exchange Manual.

##### Box 4.2: Violations which led to initiation of regulatory actions

- Equity investment abroad without permission of SBP.
- Royalty fee payments made without SBP acknowledgment of underlying contracts.
- Illegal operations of FCY account (i.e. not as per Para 1, Chap 6 of FEM-2017).
- Remittances relating to different kinds of FX transactions made without approval.
- Issuance/Extension of Bank Guarantee without SBP approval.
- Third party payments.

#### 4.5 Monitoring & Enforcement

The function of monitoring and enforcement relating to trade transaction was strengthened by incorporating the monitoring of commercial and private remittances. The salient findings and actions taken are given below:

#### **4.5.1 Monitoring of Export**

FEOD has identified exporters who did not submit the required shipping documents to ADs to avoid reporting in Export Overdue Statement (EOD) and legal action. In order to plug this loophole, FEOD issued instructions to ADs to report all such cases of EOD based on WeBOC data. Consequently, EOD reporting and repatriation there-against has increased three times. During FY18, ADs reported 58,056 export overdue cases of USD 1,225 million to FEOD as compared to 15,232 cases of USD 442 million in FY17. As a result of timely reporting of EOD cases by banks and stringent follow up by the Department, FEOD was able to manage repatriation of USD 887 million in FY18 as compared to USD 326 million in FY17, without recourse to Foreign Exchange Adjudication (FEA) Courts. Further, 13,420 complaints against exporters for non-realization of export proceeds amounting to USD 191.6 million were forwarded to FEA Courts in FY18 as against 1,966 cases amounting to USD 78 million in FY17.

In order to ensure accuracy, WeBOC data is compared with Export Overdue Reporting System (EORS) and International Transaction Reporting System (ITRS). During the year, 161,799 Electronic Forms-E (EFEs) were detected, which were neither reported as realized on WeBOC nor marked as overdue in EORS. FEOD ensured rectification; as a result realization against 105,201 EFEs was marked in WeBOC and 42,874 EFEs were reported in EORS.

FEOD verified 47,288 manual E-Forms during FY18 as compared to 39,021 in FY17. Because of on-time verification, 49 fake E-forms valuing USD 2.8 million were identified and referred to Collector of Customs (Adjudication). In addition, incidents of exports from land route on expired/cancelled EFE were identified. The Chief Collector Customs was approached to stop the practice and details of exporters have been collected for repatriation of the proceeds.

#### **4.5.2 Monitoring of Import Payments**

FEOD identified duplicate payments and payments against fake import documents amounting to USD 11 million and USD 12.8 million (including repatriation against such incidence identified during previous year) have been repatriated to Pakistan during FY18. Further, complaints against 19 importers have been lodged with FIA, who have failed to repatriate USD 10.5 million sent twice on photocopies of Bills of Lading. FEOD also monitors import advance payment to ensure imports of goods within the regulatory period of 4 months. During FY18, a penalty of PKR 102 million has been recovered compared to PKR 45 million in FY17, from importers upon their failure to import goods against advance payment.

#### **4.5.3 Verification of Returns and EE/EF Statements**

FEOD has taken initiatives for the discontinuation of physical monthly returns of FX transactions since monitoring and verification exercise are being easily and efficiently conducted on the electronic data submitted by the ADs in ITRS. However, ADs are required to maintain complete record/documents as per FE Circular No 8 of 2017. In order to ensure completeness and accuracy of data, FEOD identified 38,056 discrepancies in ITRS and advised banks to arrange for necessary rectification. FEOD also streamlined the process of verification of proceed in case of Foreign Direct Investment (FDI) and grant of immigration of Pakistan citizenship. FEOD also verified 643,404 EE/EF entries in ITRS from the physical statements submitted by the banks and employed WeBOC for the verification of EE/EF entries against advance payment at HOK, reducing turnaround time and HR requirement for the whole exercise by 60%.

#### **4.5.4 Survey of Illegal Exchange Companies**

A survey to identify the illegal foreign currency operators across all over Pakistan was managed by FEOD as per request of the Exchange Policy Department of SBP who provided the lists of legal FX

dealers to the Field Offices. The officers at Field Offices were required to visit various areas and identify the entities operating in FX other than licensed FX dealers. In this process, more than 400 illegal entities were identified and the same were forwarded to the Exchange Policy Department for taking necessary legal action.

#### 4.6 Management of Government Schemes

FEOD also makes payments to exporters under various Government schemes announced by different Ministries of Federal and Provincial Governments. During FY18, nineteen schemes were effectively handled by FEOD. These schemes vary in nature, scope and processing cycle. Most of the schemes were export oriented, payment under few schemes were based on individual transactions and some schemes were based on incremental export performance making their processing difficult and time consuming. An amount of approximately Rs 50 billion was disbursed in FY 18 as compared to Rs 30 billion in FY17, as reflected in the graph.

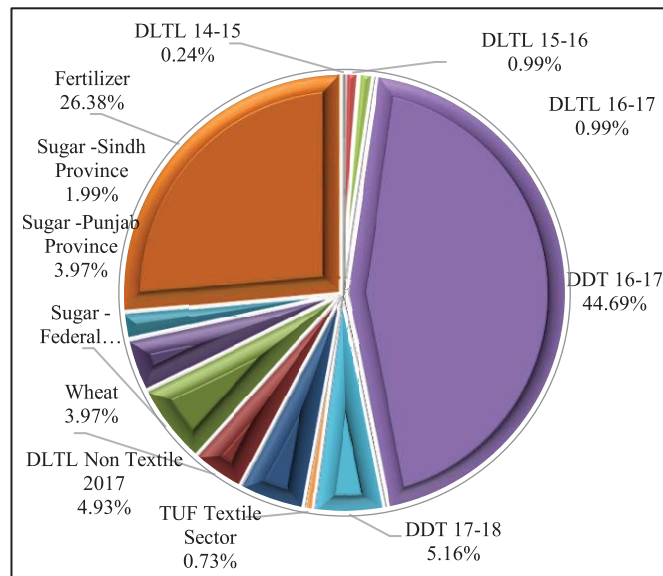


Figure 4.1: Management of Government Schemes

#### 4.7 Import and Export of Foreign Currencies through Airport Booths

State Bank has allowed the Exchange Companies to export specified foreign currency other than USD by air, subject to grant of necessary permission by EPD on case to case basis. The FEOD has set up its booths at four international airports at Karachi, Lahore, Islamabad and Peshawar, which are allowed to export foreign currencies other than USD from all the four airports. However, the import of USD is allowed from the airports of Karachi and Lahore only.

#### 4.8 Complaint & Litigation

FEOD has lodged 13,420 complaints in FY18 against exporters, who did not repatriate export proceeds on time, in FEA Courts as compared to 1,966 in FY17. The enhanced workload was managed through change in business processes. FEOD also facilitated FEAD through intimation of realization status of more than 7,000 cases lodged with it for efficient disposal of the cases.

FEOD defended and pleaded all the 26 appeals in Foreign Exchange Regulation Appellate Board (FERAB) without any legal attorney and 18 appeals were decided in favor of SBP BSC, the judgments of remaining 8 are still awaited. FEOD also responded to 13 cases filed in Supreme Court, High Court and Ombudsman by submitting detailed counter reply of appeals through legal counsel in consultation with Legal Services Department (LSD).

#### 4.9 Future Outlook

1. In order to counter the evolving risks in Foreign Exchange business, FEOD has strengthened and broadened its monitoring and operational capabilities. However, a collective approach

and use of automation is a pre-requisite to mitigate risks in managing FX operations. The Department intends to focus on three important aspects of operational efficiency i.e. achieving full automation, enhancing capacity of the workforce and stabilizing the pace of the Department aimed at consolidating the achievements of the last couple of years. The project of knowledge management has achieved considerable progress and is expected to be implemented in FY19. FEOD is in the process of establishing Electronic Data Interchange (EDI) with Customs. Upon implementation, it will enhance the capacity of FEOD to monitor FX operations relating to trade manifold. Subsequently two projects, one for providing information to banks regarding trade business of exporters and the other verification of EE/EF statement, will be implemented.

2. There is a realization that the technical capacity of officers as well as those of ADs involved in foreign exchange needs consistent enhancement. FEOD plans to further enhance the scope of its 12-day Foreign Trade Certification Program by incorporating the current regulatory concerns, particularly related to Anti-Money Laundering (AML)/Countering Financing of Terrorism (CFT) and fraudulent transactions.
3. As FEOD uses multiple applications containing FX data for its operations & monitoring i.e. ITRS, WeBOC, EORS and Globus (T-24), data in these applications need to be integrated to formulate a holistic outlook of stakeholders. Therefore a project “Integration of FX Data Universe” was conceptualized. A consolidated booklet of instructions will also be put in place after revision of FE manual by EPD.