

# 4

## Foreign Exchange Operations

*SBP BSC is mandated to perform operational work relating to Foreign Exchange under the jurisdiction of Foreign Exchange Regulation Act (FERA), Foreign Exchange Manual and instructions of Exchange Policy Department (EPD) of SBP, with the aim of safeguarding the country's foreign exchange reserves as well as facilitation of stakeholders through efficiency initiatives.*

### 4.1 Overview

As per section 15 (3) (e) (IV) of State Bank of Pakistan Banking Services Corporation (SBP BSC) Ordinance, 2001, the operational work relating to foreign exchange is primarily entrusted to SBP BSC. The Corporation performs its role to safeguard timely repatriation of export proceeds, approve foreign exchange payments as per applicable regulations, and implement Government subsidy schemes in accordance with applicable Statutory Regulatory Orders (SROs). SBP BSC is also responsible to initiate legal actions against delinquent exporters who fail to repatriate export proceeds. Further, it also monitors trade related transactions and levies penalties against regulatory violations under section 23K of Foreign Exchange Regulations Act, 1947 in coordination with SBP.

SBP BSC also verifies exporter's performance required for eligibility under Export Finance Scheme - Part II, facilitates the export of currencies other than US Dollars and import of US Dollars through the joint booths of SBP and Pakistan Customs established at airports of Rawalpindi, Lahore, Peshawar and Karachi. It also coordinates with Pakistan Customs, Federal Investigation Agency (FIA), National Accountability Bureau (NAB), Honorable Courts, etc. to ensure protection of the country's foreign exchange.

### 4.2 Key Stakeholders

- Government of Pakistan (GoP) through various ministries
- Government departments and armed forces.
- Importers & Exporters
- Exchange companies (EC)
- Shipping agencies, Freight forwarders
- Banks / Authorized dealers (ADs)
- Foreign Exchange Adjudication (FEA) Courts
- Exchange Policy Department, SBP

### 4.3 Key Performance Highlights during the Year

*Box 4.1: Key Performance Highlights during FY20*

- Successfully launched State Bank of Pakistan’s online Regulatory Approval System (RAS) under KM Project
- Enforced repatriation of overdue export proceeds amounting to USD 928.7 million without adjudication as compared to USD 841.5 million in FY19
- Disbursed Rs. 54.7 billion under Government’s Textile and Non-Textile subsidy schemes
- Processed 93,574 instances of violations under Section 23K of the FERA 1947 resulting in penalty of Rs. 153.02 million on 15 banks
- Approved 12,908 cases of commercial, private and trade related remittances
- Verified 684,147 entries under EE/EF Statements in FY20 as compared to 706,978 in FY19 using excel based in-house model
- Filed first Suspicious Transaction Report (STR) on detection of over-invoicing in import of solar panels amounting to USD 111 million during off-site monitoring
- Identified and referred 376 fake export cases worth USD 5.23 million to Customs Adjudication
- Recovered penalties of Rs. 55.181 million from non-performing exporters against sugar export quota allocations
- Facilitated Implementation of export module of IMF’s Balance of Payment Manual (BPM)-6
- Successfully defended 27 appeals in Foreign Exchange Regulation Appellate Board (FERAB) without hiring external legal counsel
- Arranged number of training programs for Authorized Dealers (ADs) and FEOD officers

### 4.4 Operational Performance

#### 4.4.1 Management of Government Schemes

SBP BSC plays a key role in implementation of all Government subsidy schemes such as Duty Drawback of Taxes (DDT), Duty Drawback of Local Taxes and Levies (DLTL) for Textile & Non-Textile, Sugar, Wheat, etc. as per the SROs / notifications issued by different ministries of Federal and Provincial Governments from time to time. The nature, criteria, and operational mechanism varies from scheme to scheme. These subsidy schemes aim to support exports and industrial growth with the ultimate objective of promoting overall economic development of the country. A total of Rs. 54.7 billion was disbursed to exporters against 470,071 claims under DDT and DLTL schemes (Textile & Non-Textile) in FY20 as compared to Rs. 49.7 billion in FY19 registering an increase of 10%. **(Figure 4.1)**. Moreover, out of the aforementioned Rs 54.7 billion, Rs 38.6 billion were released by Ministry of Commerce, GoP during the COVID-19 pandemic to ease liquidity issues of exporters and to safeguard interests of their workers. Further, penalties amounting to Rs 55.181 million were recovered from non-performing exporters against sugar export quota allocation.

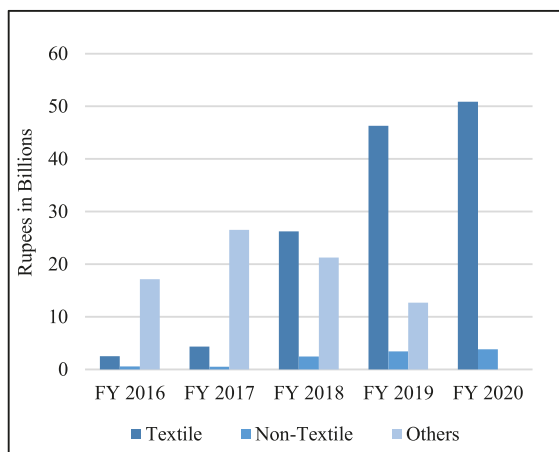


Figure 4.1: Year wise disbursements under subsidy schemes

#### 4.4.2 Commercial, Private and Trade Remittances

SBP BSC processes and approves commercial, private and trade remittances after performing due scrutiny based on wide ranging objectives of Anti Money Laundering / Combating the Financing of Terrorism (AML/CFT). During FY20, SBP BSC enhanced the scrutiny criteria to include numerous risks posed by Money Laundering & Terrorism Financing. During the year, SBP BSC processed 12,908 remittances cases as compared to 14,056 cases in FY19. This 8% decrease is attributable to restrictions placed on imports on open account and the emergence of the COVID-19 pandemic.

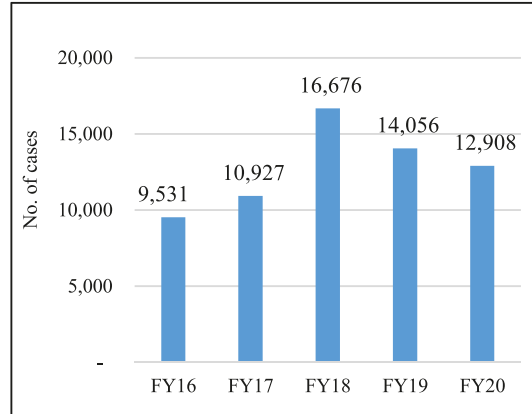


Figure 4.2: Remittance Approvals

Further, 30 cases of commercial outward remittances valuing USD 15 million (approx.) were declined to encourage utilization of locally available services.

Moreover, SBP BSC continued to seamlessly process cases of remittances during the lockdown using the automated case management platform under the Knowledge Management (KM) project. **(Figure 4.2)**

#### 4.4.3 Monitoring & Enforcement

Increasing globalization and new trade trends have posed the emerging risk of Trade Based Money Laundering (TBML) for the country. SBP BSC remained vigilant in off-site monitoring of FE-related transactions with an aim to identify fraudulent transactions and those deviating from the FE Rules and Regulations. Diligent efforts were made in pursuing delinquent exporters in relation to export overdue cases to ensure realization of overdue export proceeds. Similarly, outflow of foreign exchange through importers, shipping companies, airlines and freight forwarders was closely monitored to safeguard foreign exchange.

##### 4.4.3.1 Off-Site Monitoring of Export

SBP BSC adopted a proactive approach with an objective to recover the overdue export proceeds expeditiously without resorting to litigation process. For this, numerous meetings were conducted with various stakeholders including Customs, ADs, shipping companies, and exporters etc. to ensure repatriation of export proceeds of overdue cases. The rigorous efforts resulted in 10.4% increase in repatriation of overdue export proceeds prior to initiation of adjudication proceedings. The statistics are summarized in table below. **(Table: 4.1).**

	FY19	FY20	Change	Change (Percent)
Export overdue cases (No.)	49,996	49,331	(665)	-1.3
Export overdue cases (USD in millions)	1,073.10	1,353.5	280.4	26.1
Export proceeds repatriated (USD in millions)	841.5	928.7	87.2	10.4

During FY20, SBP BSC identified 45,532 Electronic Form E (EFE) / export forms valuing USD 1.77 billion that were neither reported as realized in Web Based Online Customs (WeBOC) nor reported as overdue despite the expiry of due dates as compared to 89,946 EFEs in FY19. This delinquency caused understatement of export overdue position. Subsequently, SBP BSC ensured marking of realization against

40,512 Electronic Form-E (75,790 EFEs in FY19), valuing USD 1.62 billion in WeBOC and reporting of 5,020 EFEs valuing USD 145.7 million in Export Overdue Reporting System (EORS) by the ADs.

Further, authenticity of 19,871 manual E-Forms was confirmed during the year. A total of 376 fake E-Forms valuing USD 5.23 million were also identified and referred to Collector of Customs (Adjudication). SBP BSC also reviewed the eligibility and authenticity of export refinance claims by conducting verification and scrutiny process of Export Earning (EE-1) and Export Finance (EF-1) Statements through an excel-based module. The use of this automated module resulted in verification of 684,147 entries during the year as compared to 706,978 in FY19 with significant reduction in turnaround time for verification. Further, monitoring of transactional data in International Transaction Reporting System (ITRS) enabled identification of more than 4,300 discrepancies, which were taken up with the concerned ADs for rectification, ensuring completeness and accuracy of the data as compared to around 23,000 discrepancies in FY19. A total of 5,130 requests for revisions in ITRS were processed as compared to 7,521 in FY19 (**Figure 4.3**). This declining trend in discrepancies after implementation of BPM-6 may be attributed to the support provided by SBP BSC to concerned officers of Authorized Dealers.

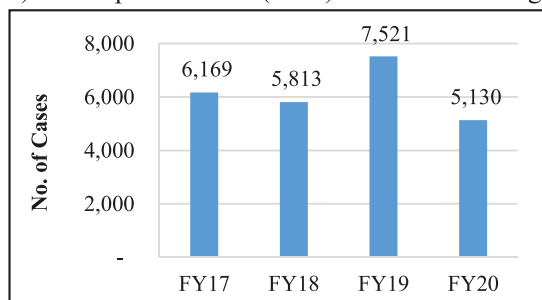


Figure 4.3: ITRS Revisions

#### 4.4.3.2 Enforcement under Section 23K of FERA

Foreign Exchange Regulation Act (FERA), 1947 was amended through insertion of Section 23K, which empowered SBP BSC to exercise powers of levying penalty on all regulatory FE violations of ADs. In order to effectively perform the newly delegated function, a comprehensive operating mechanism, including penalty scale, was devised in consultation with SBP. Accordingly, all the outstanding violations including cases referred by FEA courts, SBP and those identified by SBP BSC during off-site monitoring were processed and finalized. During FY20, around 93,574 instances of violations were processed under Section 23K, which entailed issuing of show cause notices and providing opportunity of hearing to the respective banks. As a result, penalty of Rs. 153.02 million was levied on 15 banks. Due to effective implementation of enforcement function in line with the prevailing FE Regulations, banks made significant improvement in their FE operations structure, strengthened their internal control mechanism, and enhanced staff capacity through trainings. Resultantly, compliance with regulatory instructions improved considerably.

#### 4.5 Complaints & Litigation

SBP BSC effectively handled the litigation / prosecution process and focused on pleading record number of complaints lodged in Foreign Exchange Adjudication (FEA) Courts. Effective pleading and prosecution at FEA Courts lead to decision of 12,334 cases as compared to 7,682 cases in FY19. FEA Courts were also facilitated through reporting of realization status of more than 11,000 cases from WeBOC to ensure efficient disposal of cases. Further, 12,439 complaints were lodged in FY20 against delinquent exporters, who failed

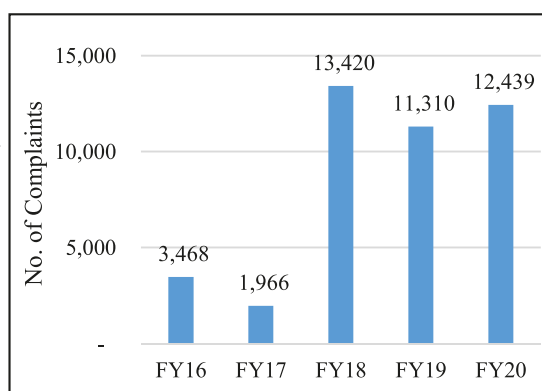


Figure 4.4: Complaints referred for adjudication

to repatriate export proceeds on time as compared to 11,310 complaints in FY19. **(Figure 4.4)**. Standard Operating Procedures (SOPs) were also issued to streamline and standardize the complaint process.

In addition, SBP BSC successfully defended and pleaded 27 out of 36 appeals in Foreign Exchange Regulation Appellate Board (FERAB) without hiring external legal counsel, whereas the judgments on remaining 9 appeals are still awaited. The decisions of appeals at Appellate Board resulted in fine recovery of Rs. 6.9 million. Furthermore, comprehensive and detailed counter-reply of 15 cases in High Courts were also prepared in consultation with Legal Services Department (LSD), SBP and submitted in courts through various external legal counsels.

#### 4.5.1 Maintenance of FE allocation

SBP BSC maintains and issues permits for utilization of foreign exchange allocated by Ministry of Finance to different government departments. During FY20, 8,107 approval / verification requests received from various government departments were processed besides coordination on ancillary matters.

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

In order to facilitate Exchange Companies (ECs) in exporting permissible foreign currencies (FCY), other than USD, and importing of USD-equivalent currencies, SBP BSC has placed airport booths at four major airports of the country, i.e., Karachi, Lahore, Islamabad and Peshawar. The consolidated figures of export and import of FCY was shared with SBP for inclusion in its various reports. SBP BSC's staff deployed at these airport booths ensured that import and export of FCY was conducted according to the applicable FE regulations whereas, independence of staff was ensured through regular rotations. Previously 100% FCY exports were routed through hand carry parcels, however due to COVID-19, flight operations were suspended for passengers, which halted export / import of FCY through carriers. Hence, a mechanism for export of FCY through cargo flights was successfully implemented in consultation with SBP. Following SBP BSC's lead, ECs also commenced their FCY exports through cargo flights for subsequent repatriation in USD-equivalent currencies through their FCY accounts.

*Table 4.2: Summary of Cash FCY Exported and Imported during FY20*

City	Export Eqv. USD	Import USD
Karachi	911,034,953	767,681,796
Lahore	1,266,740,983	131,027,896
Islamabad	204,229,772	-
Peshawar	103,896,194	-
<b>Total</b>	<b>2,485,901,902</b>	<b>898,709,692</b>

#### 4.5.3 Facilitation Desk

Facilitation Desk was established in March, 2019 to assist the external stakeholders in cases of commercial remittances and other FE related issues. The Desk handled around 500 queries during FY20.

### 4.6 Developmental Initiatives

#### 4.6.1 SBP Regulatory Approval System (RAS)

In line with the SBP's Vision 2020, SBP BSC implemented the Automated Case Management System under the umbrella of Knowledge Management (KM) project to improve efficiency through automation and to shift towards a paperless environment by utilizing the latest technology. This substantial initiative of SBP BSC enabled it to capture, store, and share knowledge in a centralized repository, thereby allowing easy access to information and documents with enhanced content search capability. Building on this

concept, SBP BSC formally launched its online portal for submission of FE related cases on March 24, 2020, which proved to be a key breakthrough in COVID-19 lockdown, enabling the officers to perform their duties off-site when required.

Further, the discontinuation of paper-based submission aided in reducing the accumulation of physical record thereby saving substantial time, courier, storage costs and enabling faster decision making. Moreover, in order to facilitate clients, system-generated emails, containing updated status of cases, were sent to clients through RAS. In addition, the clients were also given the option to view updated status of their cases from the SBP's website, which was conducive towards enhancing transparency and real-time information for Bank's stakeholders.

### **4.6.2 Implementation of BPM-6 (Balance of Payment Module 6)**

During the year, SBP BSC facilitated in the implementation of export module of IMF's Balance of Payment Module (BPM-6) – an IMF-issued set of reporting guidelines for compilation of Balance of Payment information. This system provided enhanced electronic reporting of foreign exchange transactions. The system, by applying critical data validation rules, enabled electronic reporting of Export Advance Payment (EAP) utilization, as well as allowed separate reporting of partial export proceeds from EAPs with incorporated exchange rates. This resulted in substantial reduction of reporting discrepancies by around 82% from the previous year. Further, it also led to discontinuation of manual EAP Register and related paper-based submissions by ADs across all field offices with reduced HR and physical record maintenance requirements, thereby enabling enhanced monitoring by virtue of availability of structured data.

Moreover, implementation of BPM-6 also laid down the foundation of the Project titled 'Automation of EE/EF Verification', which was a key component of SBP BSC's initiative "Delegation of EFS Operations to commercial banks". Additionally, ITRS Revision Module was developed in January 2020 for effecting Non-Nostro revisions for swift resolution of subsidy cases, EFS claims, remittance approvals, and rectification of FE reporting discrepancies.

### **4.6.3 Online Portal for Government Subsidies on Export**

SBP BSC continued to actively pursue the project of establishing an Online Portal for Government Subsidies on Export. Successful system testing was carried out and the implementation is expected soon in coordination with Ministry of Commerce and Textile (MoCT). The development will significantly reduce the processing time per case, thereby, reducing HR requirements, besides, eliminating duplication of work, chances of errors due to manual intervention, and physical record keeping.

### **4.6.4 Electronic Data Interchange (EDI)**

In order to enable the availability of shipment and realization data of Electronic Form E (EFEs) and Electronic Import Forms (EIFs) through an automated daily feed from WeBOC, SBP BSC vigorously pursued the implementation of EDI in coordination with Pakistan Customs and successfully completed the system testing. Once implemented, this interface will open avenues for extensive monitoring of trade related data. Daily feed will also facilitate various foreign exchange operations, which involve verification and reconciliation with shipment details. Major work has been completed on the project and deployment will be carried out after finalization of data security protocols in coordination with Pakistan Customs.

#### **4.6.5 Policy Revisions**

SBP BSC significantly contributed towards revision of Foreign Exchange policy / regulations by sharing its practical insights, supporting comments and findings with SBP from time to time.

#### **4.6.6 Other Monitoring Developments**

SBP BSC also filed its first STR (Suspicious Transaction Report) on FMU's online GoAML portal pertaining to over-invoicing of Solar Panel imports from China. Quarterly off-site monitoring reports related to FE related transactions were prepared for the management and were subsequently shared with relevant departments of SBP for further action. Further, an excel-based 'Money Laundering Risk Assessment Model' for risk profiling of FE related cases was developed using a score-based approach. Moreover, an access-based 'Name Search Engine' was also developed which contained approximately 22,700 names of blacklisted individuals and entities for system-based name screening.

#### **4.7 Future Outlook**

Launch of Regulatory Approval System (RAS) on March 24, 2020 for online submission of foreign exchange related cases marked the completion of first phase under Knowledge Management (KM) Project, which is expected to bring efficiency, transparency, and time bound decision making in the industry along with encouraging paperless environment. SBP BSC is also committed to pursue the second phase of this project for end-to-end Digitization of FE cases which will enable the customers of commercial banks to electronically submit requests for FE related cases through their respective commercial bank's portal. The completion of second phase will fully digitize FE case submissions from customers to banks and vice versa, thereby, significantly revamping the FE operations.

Further, initiatives including EDI (Electronic Data Interchange), integration of data universe including Exporter's Information Portal (EIP), automation of EE/EF verification, and online portal for processing of Government subsidy schemes on exports are expected to enhance operational efficiency of FEOD through automation and process re-engineering in the near future. Furthermore, development of "Money Laundering Risk Assessment Model" for risk profiling and 'Name Search Engine' for name screening is likely to introduce a dynamic perspective in scrutiny of FE cases under off-site monitoring. Filing of STRs on FMU's GoAML portal will also provide a pathway for monitoring of suspicious activities in FE operations.

Moreover, regulatory actions under section 23 K of FERA, 1947 against AD's found in violations of FE regulations will keep the flows of foreign exchange in check, thereby instilling a culture of round-the-clock monitoring in the banking industry.