

## CHAPTER 19

# LOANS, OVERDRAFTS & GUARANTEES

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## CHAPTER 19

### LOANS, OVERDRAFTS & GUARANTEES

#### 1. Regulations governing Loans and Guarantees.

Extension of loans, overdrafts and credit facilities to companies (other than Banking and Microfinance Companies) which are by any means controlled directly or indirectly by persons resident outside Pakistan and to residents against guarantees or collaterals lodged outside Pakistan, obtaining of loans and overdrafts in foreign currencies and giving of guarantees on behalf of residents of Pakistan in favour of non-residents or on behalf of non-residents in favour of residents, are regulated under sub-section (2) of Section 18 and Sections 4 and 5 of the Act. This chapter contains the general regulations covering grant of such loans, overdrafts, credit facilities and guarantees.

#### Part-A

#### Lending to /Borrowing by Non-Resident Pakistanis/Resident Foreign Nationals in PKR & Loans and Advances by Authorized Dealers in FCY

#### 2. Borrowing in PKR by Foreign Controlled Companies.

Foreign controlled companies registered in Pakistan under Companies Ordinance, 1984 are entitled to borrow from local sources in PKR for any purpose subject to observance of the relevant Prudential Regulations issued by the State Bank and compliance of KYC and 'AML/CFT' standards. However, purpose of borrowing in such cases must be clear and documented in borrowing company's record.

#### 3. Borrowings by individual Non-Resident Pakistanis and Resident Foreign Nationals.

The Authorized Dealers have general permission to grant rupee loan to individual non-resident Pakistanis and resident foreign nationals in local currency (defined in Chapter 1 of Foreign Exchange Manual), subject to observance of the relevant Prudential Regulations and compliance of KYC and 'AML/CFT' standards. However, the purpose of borrowing must be clear, legitimate and duly documented. The subject permission for non-resident Pakistanis is subject to the following conditions:

- The borrowed funds will only be used to purchase immovable property in Pakistan.
- The loan will be liquidated by the borrowers through remittances from abroad in foreign exchange through normal banking channel or by debit to their foreign currency accounts which must be fed through foreign remittances.
- Sale proceeds of the immovable property shall be eligible for repatriation in foreign exchange, if required, only after maturity of loan or twenty (20) years, whichever is later.

Further, Authorized Dealers may also grant rupee loans to resident individual foreign nationals as per their requirement for other legitimate purposes subject to observance of prudential regulations issued by the State Bank.

#### **4. Lending/Borrowing by Non-Residents in Pakistan.**

Except for above mentioned para 3, Non-Residents are not allowed to borrow or lend in local currency without the special permission of the State Bank.

#### **5. Loans and Overdrafts against Guarantees of Non-Residents or against Collateral held outside Pakistan.**

Authorized Dealers may extend PKR loans to their resident clients against guarantees of non-residents/guarantees received from banks operating abroad, subject to compliance of the Prudential Regulations. However, guarantees involving FCY outflows on account of due diligence fee, upfront fee, commission fee, guarantee premium fee etc. shall require prior approval of the State Bank.

#### **6. Loans and Overdrafts by Authorised Dealers in Foreign Currency.**

Authorized Dealers will not grant any loans or provide overdraft facility in foreign currencies in or outside Pakistan, whether secured or unsecured, except FE-25 loans without prior approval of the State Bank. Applications for granting such loans or overdrafts should be made to the State Bank mentioning purpose, particulars of the guarantee or collateral, if any, and the manner in which the loans or overdrafts are expected to be liquidated.

### **Part-B Private Sector Borrowings from Abroad**

The term 'Private Sector Borrowings from Abroad (PSBA)' refers to foreign currency loans raised by the eligible borrowers in the private sector in Pakistan from foreign lenders in convertible foreign currencies in the form of commercial credit, supplier's credit, buyer's credit, working capital loans, inter-company loans, issuance of foreign currency bonds, structured loan facilities and FCY financing under Islamic arrangement subject to the instructions specified below for each category.

#### **Eligible Borrowers.**

The companies registered under Companies Ordinance, 1984 and the Independent Power Producers (IPPs), except the financial intermediaries (such as banks, financial institutions, housing finance companies, non-banking finance companies, and microfinance banks/institutions), are eligible to raise PSBA. Individuals, trusts, non-profit organizations and non-governmental organizations are not eligible to raise PSBA. However, branches of foreign companies in Pakistan opened with the permission of Board of Investment (BOI) would be eligible for PSBA subject to the conditions issued by the BOI. The long term credit rating of the aforementioned companies or their sponsors must not be lower than BB- issued by a recognized local/international credit rating agency except in the case of intercompany loans.

The requirement of long term credit rating, however, does not apply to exporters subject to the condition that the total amount of PSBA does not exceed 80% of their annual exports.

### **Eligible Lenders.**

PSBA may be raised from internationally recognized reputable sources such as Foreign Banks, International Capital Markets, Multilateral Financial Institutions (such as IFC, ADB, etc.), Government owned Development Financial Institutions, Export Credit Agencies, Suppliers of Plant & Machinery, and parent/associated companies.

The eligible borrowers shall obtain funding only from the lending institutions/lenders, who comply with the international standards (Financial Action Task Force Guidelines) of 'Anti Money Laundering (AML)' & 'Combating Financing of Terrorism (CFT)'.

### **Security.**

PSBA can be secured by any collateral/charge created on moveable or immovable property owned by the eligible borrowers/or their sponsors subject to compliance of Prudential Regulations and other applicable instructions.

In case of pledge of shares, the securities offered to raise PSBA will be governed by the regulations contained in Chapter 20 of the Foreign Exchange Manual and other relevant instructions issued by the State Bank from time to time.

Issuance of bank guarantees by the Authorized Dealers and corporate guarantees by sponsors in favor of lenders is permitted under the loan agreements registered with Exchange Policy Department of the State Bank with respect to PSBA or Authorized Dealer (equal to or under USD one (1) Million).

### **PSBA Registration.**

All PSBAs over USD one (1) Million or equivalent in other convertible currencies will be required to be registered with Exchange Policy Department of the State Bank. Intending borrowers may request the State Bank through their Authorized Dealers for the registration of loan agreement in case the terms and conditions of the loan agreement comply with the related requirements. The State Bank will register the loan agreement and issue Loan Registration Number (LRN). The procedure for obtaining LRN and making repayments thereof has been laid down in Part F of this chapter.

Any amendments/rescheduling of the registered PSBA will be submitted to Exchange Policy Department for acknowledgment.

### **Forward Cover Facility.**

Authorized Dealers may extend forward cover facility to the eligible borrowers for one year or the remaining maturity of the loan (whichever is earlier) in accordance with the regulations contained in Chapter 4.

In cases where the underlying foreign loans have a tenor of more than 12-months, the tenor of the forward cover facility would be 12-months on rollover basis or the remaining tenor of the loan, whichever is less.

However, the Authorized Dealer should ensure that the forward cover facility will not be provided for less than one month; and the borrower will not hedge the amount more than the underlying exposure, in any case.

**Pre-Payments.**

Prepayment of PSBA will not be allowed except for the “PSBA for Project Financing”, the request for which will be evaluated by the Exchange Policy Department on a case to case basis. However, swapping PSBA with local currency loans will not be allowed, in any case.

**Waivers/Exceptions related to PSBA.**

Any waiver/exception from the terms and condition mentioned in the policy will require prior approval of the Exchange Policy Department i.e. before execution of the facility documents.

**Categories of PSBA**

**7. PSBA for Project Financing.**

PSBA for Project Financing can be raised for meeting capitalized costs of the projects such as expenses relating to establishment of new projects, import of plant & machinery, modernization/expansion of existing projects, buying/acquiring patents/operating licenses/trademarks, procurement of technical expertise and repayment of existing PSBA in all sectors including Small & Medium Enterprises (SME) and infrastructure projects. The maturity of such loans should not be less than three (3) years.

However, funds so generated are not allowed for onward lending or investment in capital market /real estate or acquiring a company (or a part thereof) in Pakistan.

**Borrowing Cost Ceiling.**

The borrowing cost ceiling includes spread over relevant benchmark rate, loan related insurance premium, and other loan related fees payable in foreign currency; except the commitment fee, cost & expenses and fees payable in local currency.

The All-in-cost ceiling is given as under:

<b>Maturity Period</b>	<b>Borrowing Cost Ceiling excluding relevant benchmark rate</b>
Three (03) Years to five (05) Years	350 basis points
More than five (05) Years	600 basis points

**Conversion of PSBA for Project Financing into Equity.**

The outstanding amount of PSBA Project Loans can be converted into equity either after completion of the project or after 3 years, whichever is later, only after obtaining prior approval of Exchange Policy Department. In case of unlisted companies, the loan will be converted on the break-up value established by the external auditors included in

the State Bank’s approved list. Further, in case of listed companies, the loan will be converted at the average market value of previous six (6) months. The exchange rate used to convert foreign exchange liabilities into PKR in latest audited financial statements will be used to establish the rupee liability of the loan.

**Other Terms & Conditions.**

- i The refinancing of existing PSBA Project Loans will only be allowed subject to the condition that the fresh PSBA will be raised at a relatively lower rate of all-in-cost and/or the outstanding maturity of the original PSBA will either be maintained or extended.
- ii The amount of loan borrowed from eligible lenders could be credited to a foreign currency account opened under Para 9, Chapter 6 of the Foreign Exchange Manual for making import and consultancy payments only. However, the provisions of Para 8 ibid will remain available to IPPs.

**8. PSBA for Working Capital.**

The PSBA for Working Capital can be raised for meeting the foreign currency component of working capital requirements of companies established/operating in Pakistan. However, maturity of the PSBA under this category shall range between six (6) months and one (1) year. However, the subject loan can be rolled over for a minimum period of six (6) months.

**Borrowing Cost Ceiling.**

The borrowing cost ceiling includes spread over relevant benchmark rate, loan related insurance premium and other loan related fees payable in foreign currency except commitment fee, cost & expenses and fees payable in local currency.

The All-in-cost ceiling is given as under:

<b>Maturity Period</b>	<b>Borrowing Cost Ceiling excluding relevant benchmark rate</b>
Six (06) Months to One (01) Year	200 basis points

**Terms applicable to foreign contractors and foreign companies operating in branch mode.**

- i) The branches of foreign companies working in Pakistan with the permission of BOI can only borrow interest free loans from their sponsors/parents.
- ii) The foreign contractors/construction companies working in Pakistan with the permission of BOI and/or registered with the Pakistan Engineering Council (PEC) can borrow interest free loans from their sponsors/parents. They can repay the loans only after they conclude the contracted work/project or complete a milestone and submit the milestone completion certificate/completion certificate, issued by the relevant authority. Further, they will submit a clearance certificate issued by the Revenue Authorities, which must be attached with Form ‘M’. In case the tax is not payable, a copy of exemption certificate issued by the Revenue Authorities must be submitted.

The information relating to rollover shall be submitted to Exchange Policy Department, where applicable, before execution of the transaction.

**9. PSBA for Bridge Financing.**

The PSBA for Bridge Financing will be raised only for meeting the financing gap arising from outstanding project payments and delays in disbursements from committed FCY equity or PSBA for Project Financing. The maturity of the PSBA under this category shall range between six (6) months and one (1) year.

**Borrowing Cost Ceiling.**

The borrowing cost ceiling includes spread over relevant benchmark rate, loan related insurance premium and other loan related fees payable in foreign currency, except commitment fee, cost & expenses and fees payable in local currency.

The All-in-cost ceiling is given as under:

<b>Maturity Period</b>	<b>Borrowing Cost Ceiling excluding relevant benchmark rate</b>
Six (06) Months to One (01) Year	200 basis points

The loan amount received under this category can be retained in the special foreign currency account opened under Para 9, Chapter 6 of Foreign Exchange Manual only for making payments relating to import of goods and services under the already established contracts.

**10. PSBA mobilized through Securitized Instruments, Issuance of Bonds & Financing under Islamic Arrangement.**

The PSBA to be mobilized through securitized instruments, issuance of bonds and Financing under Islamic Arrangement will require prior approval of the State Bank. PSBA under this category can be used for establishment of new projects, import of plant & machinery, modernization/expansion of existing projects, buying/acquiring patents/operating licenses/trademarks, procurement of technical expertise and repayment of existing PSBA in all sectors including Small & Medium Enterprises (SME) and infrastructure projects.

However, the proceeds so generated shall not be allowed to be used for onward lending, investment in capital market /real estate or acquiring a company (or a part thereof) in Pakistan.

The intending borrowers may submit the proposal to Exchange Policy Department of the State Bank through their Authorized Dealers, seeking “in-principle” approval to issue the bonds/securitized instruments in international capital/debt markets, mentioning all the necessary information including key terms and waivers required, along with the draft documents. After obtaining in-principle approval, the borrower will submit the executed agreements to obtain formal approval.



## **11. Types of Loans not covered above.**

Any type of foreign loan which does not fall under any of the above mentioned categories may be referred to the State Bank for consideration

### **Part-C Foreign Currency Trade Financing from Abroad (FTFA)**

The term 'FTFA' refers to credits extended for imports/exports directly by the overseas suppliers/buyers, banks and financial institutions to finance letters of credit and other overseas contractual obligations.

#### **Eligible Borrowers.**

The companies registered under Companies Ordinance, 1984 and/or members of chambers of commerce, except financial intermediaries (such as banks, financial institutions, housing finance companies, non-banking finance companies, and microfinance banks/institutions) are eligible to raise FTFA. Individuals, trusts, non-profit organizations and non-governmental organizations are not eligible to raise FTFA.

However, branches of foreign companies in Pakistan established under the permission of Board of Investment (BOI) and the subsidiaries of foreign companies incorporated in Pakistan will be eligible for FTFA subject to compliance of terms and conditions prescribed by the relevant authorities.

The long term credit rating of the aforementioned companies or their sponsors must not be lower than BB- issued by a recognized local/international credit rating agency except in the case of intercompany loans.

#### **Eligible Lenders.**

FTFA can be raised from reputable internationally recognized sources such as international & multilateral financial institutions, foreign banks. Further, FTFA may also be raised from suppliers/buyers and parent companies.

The eligible borrowers shall obtain funding only from the lending institutions/lenders, who comply with the international standards (Financial Action Task Force Guidelines) of 'Anti Money Laundering (AML)' & 'Combating Financing of Terrorism (CFT)'.

#### **Registration of FTFA.**

All import loans under FTFA will be registered with SBP; however, with respect to export FTFAs, loans over USD one (1) million or equivalent will be registered with the State Bank. For this purpose, the intending borrowers may submit application to the Director, Exchange Policy Department, State Bank of Pakistan, Karachi through their Authorized Dealers to obtain Loan Registration Number (LRN). The procedure for obtaining LRN and effecting related remittances is laid down in Part F of this chapter.

Further, for export FTFAs upto USD (1) million, registration with the State Bank is not required.

### **Waivers/Exceptions related to PSBA.**

Any waiver/exception from the terms and condition mentioned in the policy will require prior approval of the Exchange Policy Department i.e. before execution of the facility documents

### **Categories of FTFA**

#### **12. Import Loans under FTFA.**

Eligible borrowers can obtain import loans under FTFA to finance import letters of credit and other overseas contractual obligations for transactions over USD 5 million having minimum maturity of two 2 years.

#### **Borrowing Cost Ceiling.**

The borrowing cost ceiling includes spread over relevant benchmark rate, loan related insurance premium, and other loan related fees payable in foreign currency except the commitment fee, cost & expenses and fees payable in local currency.

The All-in-cost ceiling is given as under:

<b>Maturity Period</b>	<b>Borrowing Cost Ceiling excluding relevant benchmark rate</b>
Two (2) years to five (5) years.	350 basis points

#### **13. Export Loans under FTFA.**

Eligible borrowers (exporters), who have firm commitments/contract with the overseas buyers for export of goods from Pakistan may obtain FTFA in convertible currencies from Eligible lenders to the extent of the value of firm commitment/contract to finance the export of goods from Pakistan. The maximum tenure of such loans will be the period generally fixed for repatriation of export proceeds plus a further period of sixty days. The exchange risk will be borne by the borrower.

#### **Borrowing Cost Ceiling.**

The borrowing cost ceiling includes spread over relevant benchmark rate, loan related insurance premium and other loan related fees payable in foreign currency; except commitment fee, cost & expenses and fees payable in local currency.

The All-in-cost ceiling is given as under:

<b>Maturity Period</b>	<b>Borrowing Cost Ceiling excluding relevant Benchmark rate</b>
Upto 240 days	200 basis points

## **Other Terms & Conditions.**

- i In case an exporter utilizes this facility, he will not be eligible to obtain export finance in local currency from a bank in Pakistan and the facility under the 'Export Refinance Scheme' for the same export commitment.
- ii The foreign currency amount of loan, upon receipt from abroad, will be converted into PKR with an Authorized Dealer in Pakistan and will not be retained in foreign currency account.
- iii The foreign currency loan will be repaid, along with interest, out of the related export proceeds.
- iv However, in case an exporter is unable to export goods against a firm contract/letter of credit against which a foreign currency loan was obtained or there is delay in realization of export proceeds, the exporter may repay the loan from the proceeds of other export consignment provided no such foreign currency loan has been obtained against the substituted underlying contract/letter of credit. The exporter may also make the repayment of loan from exporter's foreign currency retention account.

## **Part-D**

### **Financial Sector Borrowings from Abroad (FSBA)**

The term 'Financial Sector Borrowings from Abroad (FSBA)' refers to foreign currency borrowings from abroad by the eligible borrowers operating in the financial sector of Pakistan. The FSBA's are only allowed in convertible currencies.

#### **Eligible Borrowers.**

The FSBA's can be raised from the eligible lenders by the Authorized Dealers/banks, non-bank financial institutions (NBFIs), microfinance banks & institutions (MFBs&Is) and the branches/subsidiaries of foreign banks operating in Pakistan.

While the requests from the Authorized Dealers/banks working in Public Sector for raising FSBA's will be dealt with at Exchange Policy Department of the State Bank, the Economic Affairs Division, Government of Pakistan will deal with the requests received from all other Public Sector Enterprises (PSEs).

#### **Eligible Lenders.**

FSBA can be raised from the international financial institutions, donor agencies, specialized banks/institutions and the overseas branches/correspondents of the Authorized Dealers (banks) in Pakistan.

The eligible borrowers shall obtain funding only from the reputable international lending institutions/lenders, who comply with the international standards (Financial Action Task Force Guidelines) of 'Anti Money Laundering (AML)' & 'Combating Financing of Terrorism (CFT)'.

## **Registration of FSBA.**

All FSBA's over USD one (1) million or equivalent shall be registered with the State Bank. For this purpose, the intending borrowers may request Exchange Policy Department of the State Bank for registration of loan and obtaining 'Loan Registration Number' (LRN). The procedure and list of supporting documents, required to be submitted with the application have been given in Part F of this chapter.

## **Pre-Payment**

The request for prepayment of FSBA will be evaluated by the State Bank on a case to case basis.

## **14. Credit Lines/Overdrafts established by Authorized Dealers with Correspondents/Overseas Branches.**

Authorized Dealers may obtain short-term loans and credit lines from their overseas branches and correspondents to meet liquidity shortage in domestic foreign exchange market or to meet their Nostro funding requirement. The maximum maturity of such loan/credit line will be seven (7) days.

## **Borrowing Cost Ceiling.**

The borrowing cost ceiling includes spread over relevant benchmark rate and other fees/expenses payable in foreign currency.

The All-in-cost ceiling is given as under:

<b>Maturity Period</b>	<b>Borrowing Cost Ceiling excluding relevant benchmark rate</b>
Upto seven (7) days	100 basis points

## **Other Terms & Conditions.**

- i If such loans or overdrafts are required to be secured by collateral to be lodged in Pakistan or elsewhere, full details of the proposed arrangements should be furnished to the Exchange Policy Department of the State Bank for prior approval.
- ii Interest on short-term loans and credit lines availed under this para may be remitted by Authorized Dealers without the prior approval of the State Bank.

## **15. FSBA by Authorized Dealers/Banks and Branches/Subsidiaries of Foreign Banks in Pakistan for Liquidity Management Purpose.**

The Purpose of FSBA by Authorized Dealers/Banks and the branches and subsidiaries of foreign banks shall be for liquidity management. The maturity of PSBA under this category shall be from six (6) months to one (1) year. However, the subject loan can be rolled over for a minimum period of six (6) months.

### **Borrowing Cost Ceiling.**

The borrowing cost ceiling includes spread over relevant benchmark rate, loan related insurance premium and other loan related fees payable in foreign currency except the commitment fee, cost & expenses and fees payable in local currency.

The All-in-cost ceiling is given as under:

<b>Maturity Period</b>	<b>Borrowing Cost Ceiling excluding relevant benchmark rate</b>
Six (06) Months to One (01) Year	350 basis points

### **Threshold.**

Under this category of FSBA, the eligible borrower can borrow foreign currency from an eligible lender up to 100% of his unimpaired capital, as per his latest audited financial statements.

### **Other Terms & Conditions.**

- i The Authorized Dealers/banks and the branches of foreign banks in Pakistan are not allowed to offer any security/collateral/guarantee whatsoever to the lenders under FSBA, as the borrowing will be clean and based on balance sheet strength.
- ii The borrower under this category will not be allowed to sell such FCY funds outrightly in the interbank market, or to the customer. Further, the loan proceeds cannot be used by the borrower for extending any FCY trade loan facility in Pakistan.
- iii Borrowing Authorized Dealer/bank will be allowed to enter into FCY/PKR sell/buy Swaps in the interbank market. Though the tenor of these Swaps may range from 1- month to 1-year, the outstanding amount of related Net Forward Purchases, at any point in time, should not be lower than the FCY amount borrowed under this arrangement.
- iv After obtaining LRN from the State Bank, the borrower bank/ institution will make payment of the amount of principal and interest thereon, in accordance with the repayment schedule submitted at the time of obtaining LRN.

### **16. Long Term FSBA by Authorized Dealer.**

In case, an eligible borrower under this category intends to borrow funds from abroad for a period longer than one year or for a purpose other than the liquidity management, the Authorized Dealer shall submit the request to the Director – Exchange Policy Department, State Bank of Pakistan, Karachi. Such requests shall be considered by the State Bank on their merit, on a case to case basis.

### **17. FSBA by Micro Finance Banks/Institutions in Pakistan.**

The purpose of FSBA by Micro Finance banks/institutions shall be the financing of their loan portfolio only. The minimum maturity of the loan will be two (2) years.

### **Cost of Borrowing.**

The cost of borrowing will be negotiable which shall be competitive with the prevailing rate in local market. Micro Finance Banks/Institutions shall submit the local quotes of interest rate from local lending institutions, if cost of borrowing from international institutions is higher than LIBOR + 5%.

### **Other Terms & Conditions.**

- i. The disbursed FCY funds will immediately be converted into PKR and credited to borrowing Micro Finance bank's/institution's PKR account maintained with the concerned Authorized Dealer in Pakistan. Under no circumstances, Micro Finance Banks/Institutions will be allowed to retain such funds in foreign currency.
- ii. Authorized Dealers may provide forward cover/hedging facility on the foreign currency loans to the Micro Finance Banks/Institutions in accordance with the prevailing foreign exchange regulations.
- iii. Draft Term Sheet agreed between the lender and borrowing Micro Finance Banks/Institutions shall be submitted to Exchange Policy Department of the State Bank while applying for in-principle approval. However, for formal approval, Micro Finance Banks/Institutions will comply with the applicable guidelines as mentioned above and those contained in Part F of this chapter.
- iv. Issuance of guarantees by sponsor/donors in favor of lenders is permitted under the loan agreement registered with the State Bank for FSBA by Micro Finance Banks/Institutions in Pakistan.

### **18. FSBA by other Financial Institutions i.e. NBFIs, Leasing Companies, House Building Finance Companies & Insurance Companies.**

In case of any other financial institution not covered above, such as Non-Banking Financial Institutions working in Pakistan, deem it necessary to borrow from abroad, they will approach the Director – Exchange Policy Department (SBP) clearly specifying the purpose of borrowing, along with all the supporting documents, for seeking prior permission before execution of facility documents.

State Bank will consider the request on its merit, on a case to case basis.

## **Part-E Guarantees**

### **Definition.**

For the purposes of Section 18(2) of the Act the guarantees on behalf of private sector will be governed under Prudential Regulations (R-7) 'Guarantees', in addition to specific clauses given below.

### **19. Guarantees on behalf of Residents of Pakistan in favour of Non-residents.**

Except in cases covered by paragraph 23, prior approval of the State Bank is required for giving any guarantee or undertaking or opening of a letter of credit Standby Letter of

Credit, the issuance/opening of which may involve payment to a non-resident either in foreign currency or Rupees. Applications seeking permission for giving such guarantee or undertaking should be made by letter giving full particulars of the guarantee or undertaking viz., the amount, the period and the purpose of the guarantee and the terms of payment in the event of the guarantee being invoked. These restrictions also apply to renewal of such guarantees, undertakings, letters of credit/Standby Letter of Credit etc. Such applications for renewal may be forwarded by the Authorized Dealers to the Director, Exchange Policy Department, State Bank of Pakistan/ Director, Foreign Exchange Operations Department, State Bank of Pakistan-Banking Services Corporation, stating the extent upto which the facilities covered by the guarantees were utilized during the previous twelve months or during the validity of the guarantees etc., if the period involved is less than 12 months.

In case the guarantee is invoked, the particulars of the case should be reported by the concerned Authorized Dealer to the State Bank within a week.

## **20. Guarantees on behalf of Non-Residents in favour of Residents of Pakistan.**

Prior approval of the State Bank is required for giving guarantees or undertakings in favour of residents in Pakistan by or on behalf of non-residents or against overseas guarantees or collaterals lodged outside Pakistan. This restriction does not, however, apply to cases covered under paras 23 and 24 or where the guarantee is being extended by the Authorized Dealer on the basis of a back-to-back guarantee from its overseas branch or correspondent. Applications for this purpose should be made by Authorised Dealer to the Director, Exchange Policy Department, State Bank of Pakistan/ Director, Foreign Exchange Operations Department, State Bank of Pakistan-Banking Services Corporation giving full particulars including the amount, the period and the purpose of the guarantee and the manner in which the Authorized Dealer will be reimbursed in the event of the guarantee is being implemented. Renewal of such guarantees also requires the prior permission of the State Bank. While forwarding applications, Authorized Dealers should state the extent to which the facilities covered by the guarantee or undertaking etc., have been utilized during the previous 12 months or such shorter period for which the facilities remained available.

In case the guarantee is invoked, the particulars of the case should be reported by the concerned Authorized Dealer to the State Bank within a week.

## **21. Performance/Bid Bond Guarantees.**

Authorized Dealers and those Insurance Companies which are being regulated by Securities & Exchange Commission of Pakistan for the above purpose, may issue Performance or Bid Bond Guarantees on behalf of exporters, members of recognized Consultancy/Construction Associations and Companies approved by Pakistan Engineering Council (PEC) in Pakistan subject to the following conditions:

- i) Tenders specifically call for furnishing of such guarantees.
- ii) The beneficiary abroad is a foreign Government or a Government sponsored Organization or a private company or a firm.
- iii) The tenderer is a bonafide exporter or a manufacturer of commodity which is specified in the tender and there is no restriction on its export from Pakistan.

- iv) In case of Consultancy/Construction firms and Engineering firms recognized by Pakistan Engineering Council, the organization issuing the performance or bid bond must satisfy itself that the tenderer is a bonafide Consultancy/Engineering firm, having the requisite financial and technical resources and there are reasonable prospects of their being able to successfully execute the contract. Companies with poor track record will not be eligible.

**22. Remittances under Guarantees or Performance Bonds and their Reporting to the State Bank.**

Authorized Dealers may effect remittances against the Performance Guarantees or bonds issued by them or by the Pakistan Insurance Corporation or National Insurance Company Limited or those Insurance Companies - which are being regulated by Securities & Exchange Commission of Pakistan only if remittances become necessary for the implementation of such Performance Guarantees or bonds. In those cases, Authorized Dealers should minutely scrutinize the terms of Para 21 and satisfy themselves that the amount has become payable to the beneficiaries due to the default of the party in Pakistan. While reporting remittances made against such Performance Guarantees/Bonds to the concerned area office of Foreign Exchange Operations Department, State Bank of Pakistan-Banking Services Corporation in their monthly foreign exchange returns, the Authorized Dealers will bunch Forms 'M' with the documents given below alongwith the covering statement in duplicate as per Form (Appendix V- 94):

- i) Copy of the Guarantee or Performance Bond.
- ii) Copy of the claim received by the foreign bank from the concerned Government or the Government institutions or a private company or a firm demanding such payment.
- iii) Copy of correspondence, if any, exchanged between the foreign bank and foreign government or Government Institution or a private company or a firm.
- iv) Copy of correspondence exchanged by the firm in Pakistan on whose behalf Guarantee/Bond was issued with the concerned foreign Government or Government Institution or a private company or a firm about invoking of the Guarantee/Bond by the latter.

**23. Guarantees which may be given without prior approval of the State Bank.**

The restrictions in paragraphs 19 and 20 do not apply to guarantees given by Authorized Dealers in favour of non-residents on behalf of their customers in the ordinary course of their business in respect of missing documents, authentication of signatures, release of goods on Trust Receipts and defects in documents negotiated by them under letters of credit etc.

**24. Guarantees and Collaterals in favour of Overseas Bank Branches and Correspondents.**

Authorized Dealers shall not, without the prior approval of the State Bank, furnish guarantees to the overseas bank branches or correspondents or hold collaterals on their behalf in respect of any credit facilities or guarantees the latter may extended by them or for any other purpose. All applications for this purpose should be made to Director, Exchange Policy Department, State Bank of Pakistan by letter giving full details of the



guarantees or collaterals, as the case may be, and that of underlying transaction in cover of which guarantee is proposed to be given or collaterals deposited.

## **25. Guarantees in favor of Government Departments/Ministries/Public Sector Entities (PSEs).**

Authorized Dealers may issue foreign currency guarantees on behalf of residents and non-residents in favor of Government departments/ministries and PSEs, subject to the compliance of Prudential Regulations and other regulations issued by the State Bank.

In case the guarantee in foreign currency is invoked, the amount will be paid in equivalent Pak Rupees to the concerned Government department/ministry/PSE.

## **26. Renewal of Loans and Overdrafts.**

In cases where the extension/issuance of loans, overdrafts or guarantees requires the prior approval of the State Bank/SBP-Banking Services Corporation, the renewal of such loans, overdrafts or guarantees shall also require their prior approval.

### **Part-F Procedure for obtaining Loan Registration Number (LRN)**

#### **Responsibilities of Authorized Dealers.**

- Authorized Dealers will maintain a centralized loan database of outstanding FCY loans.
- Authorized Dealers will ensure the compliance of KYC/AML/CFT guidelines issued by the State Bank from time to time.
- It will be the responsibility of Authorized Dealers to maintain the record of beneficial owners/directors of the borrowers and lenders.
- Authorized Dealers will be responsible to obtain LRN before executing any transaction for their clients.
- Authorized Dealers will be responsible to ensure that the LRN is obtained before reporting loans to Statistics & Data Warehouse Department (S&DWH) of the State Bank. For the purpose, the Authorized Dealers will submit loan agreement to the State Bank within one (1) month of its signing. Further, the repayment schedule should also be submitted to the State Bank within One (01) month of completion of loan disbursement or project, whichever is earlier.
- Authorized Dealers are allowed to effect all the remittances such as principal, interest and other fees after obtaining LRN in all FCY loans except PSBA under project financing and FTFA under import loans. However, for remittances of principal, interest and other fees against PSBA under project financing and

FTFA under import loans, repayment schedule registration with the State Bank is mandatory.

- For transactions upto USD one (1) million, Authorized Dealer will ensure that loan agreement is compliant with all the terms and conditions mentioned in the relevant category. Further, Authorized Dealer will maintain all the category-wise documents as mentioned below at all times and submit the report of all outstanding loans on the prescribed format to the State Bank at [fcy.loans@sbp.org.pk](mailto:fcy.loans@sbp.org.pk) on monthly basis.
- In case multiple loan agreements between a single borrower and lender cross the threshold amount of USD (1) One million within (6) six months, Authorized Dealer will request Exchange Policy Department of the State Bank for issuance of LRN.
- For issuance of LRN against transaction over USD (1) One million, Authorized Dealer will submit the request to the Director, Exchange Policy Department, State Bank of Pakistan alongwith the following documents for each category:

### **PSBA for Project Financing.**

#### **Documentation Requirement.**

- Original loan/credit agreement alongwith its three (03) authenticated copies.
- A list of the company's Directors.
- Project report showing the details of the project including its cost (showing breakup of local and foreign component).
- Location of the project & a copy of Certificate of Incorporation of the company.
- In the case of Buyer's Credit arranged by the foreign supplier, three authenticated copies of the purchase contract.
- For intercompany loans, documentary evidence of the relationship between the companies alongwith the endorsement of Authorized Dealer.
- For exporter, documentary evidence and data of last year's exports alongwith the endorsement of the Authorized Dealer.

#### **Other conditions.**

- I. The original loan/credit Agreement will be returned by EPD (SBP) to the Authorized Dealer after allocating LRN.
- II. In case of Supplier Credit/ Buyer Credit arranged by the foreign supplier, the remittance of down payment will be made by the Authorized Dealers to the extent provided in the agreement, after obtaining LRN from State Bank of Pakistan. Such remittance will be reported to the concerned area office of Foreign Exchange Operations Department, SBP-Banking Services Corporation.

- III. The interim payments during the gap between obtaining loan registration number and repayment schedule registration, Authorized Dealer will approach Exchange Policy Department, State Bank of Pakistan for the permission to remit principal repayments and interest payments. However, for all loan related fees/expenses, Authorized Dealer will approach Foreign Exchange Operations Department, SBP-Banking Services Corporation for obtaining prior permission to effect the remittance, accordingly.
- IV. The Authorized Dealer will furnish the following documents to Exchange Policy Department, State Bank of Pakistan, Karachi for Repayment Schedule (V-87) registration:
  - In case of direct disbursement, Authorised Dealer shall submit Proceed Realization Certificates.
  - In case of import of plant & machinery, Authorised Dealer shall submit Exchange Entitlement Certificates issued by Foreign Exchange Operations Department, SBP-Banking Services Corporation.
  - In case of import of services, Authorised Dealer shall submit External Auditor's Certificate confirming the amount of PSBA utilised for the subject payments along with the original agreement and invoices.
- V. Once the liability to the foreign lender is established through aforementioned documents, the repayment schedule as per Form 'V-87' will be submitted to Exchange Policy Department, State Bank of Pakistan, Karachi in quadruplicate through the Authorized Dealer. Further, the aforementioned repayment schedule shall be submitted within One (01) month of completion of loan disbursement/ project (whichever is earlier).
- VI. After that, the Authorized Dealer will effect the remittance of principal, interest and other fees. A copy of the Proceeds Realization Certificate (PRC), a certificate confirming the applicable benchmark rate, a certificate confirming payment and copy of repayment schedule of applicable Taxes, will be attached with the Form 'M' indicating LRN and as remittance authority at the time of submitting the returns to Foreign Exchange operations Department, SBP-Banking Services Corporation.

### **PSBA for Working Capital/ Bridge Financing.**

#### **Documentation Requirement.**

- The original loan/credit agreement alongwith its three (03) authenticated copies.
- A list of the company's Directors.
- An authenticated copy of the final repayment schedule (as per Appendix V-92).

#### **Other conditions.**

- I. The State Bank will allocate LRN and intimate the Authorized Dealer accordingly.

- II. On complete disbursement of foreign currency loan, as per the registered loan agreement, the Authorized Dealer will submit the Proceeds Realization Certificates (PRC)/Certificate of Deposit in original within fifteen (15) days of disbursement completion, to the Director, Exchange Policy Department, State Bank of Pakistan, Karachi.
- III. The Authorized Dealer can effect the remittance of principal, interest and other fees, once the borrower is assigned LRN by the State Bank. A copy of the Proceeds Realization Certificate (PRC), a certificate confirming the applicable benchmark rate and a certificate confirming payment of applicable taxes will be attached with the Form 'M' indicating LRN as remittance authority at the time of submitting the returns to the respective area office of the Foreign Exchange Operations Department, SBP-Banking Services Corporation.

### **PSBA for Securitized Instruments/Bonds & Financing under Islamic Arrangement.**

#### **Documentation Requirement.**

- a. Request from the issuer alongwith the related prospectus of the issue.
- b. Industry analysis, yield curves and ratings of other bonds/Term Finance Certificates issued by the industry.
- c. Rating of the issuer and the instrument by the recognized local or international rating agency.
- d. Details of utilizations of the proceeds.
- e. Repayment mechanism and obligations.
- f. In case of Islamic financing/securitized instruments, the details of underlying asset (s).
- g. Shariah compliance certificate in case of Sukuk issuance.

### **Financial Sector Borrowings from Abroad (FSBA).**

#### **Documentation Requirement.**

- Request letter duly signed by the Group Head or President/CEO of the applicant institution.
- The original loan/credit agreement/swift message along-with three (03) authenticated copies.
- A copy of the final expected repayment schedule.

#### **Other Conditions.**

- I. The State Bank will allocate LRN and intimate the Authorized Dealer accordingly.

- II. The Authorized Dealer will report the transaction on Appendix V-93 till maturity of the loan.
- III. After securing LRN from the State Bank, Authorized Dealer can remit principal repayments and interest payments.

**Credit Lines/Overdrafts established by Authorized Dealers with Correspondents/Overseas Branches.**

**Documentation Requirement.**

- Request letter duly signed by the Group Head or President/CEO of the applicant institution.
- The original loan/credit agreement alongwith three (03) authenticated copies.

**Other Conditions.**

- I. The State Bank will allocate LRN and intimate the Authorized Dealer accordingly wherever applicable.
- II. Authorized Dealer will subsequently report the transaction to the Statistics & Data Warehouse Department of the State Bank.

**FSBAs to be raised by Micro Finance Banks/Institutions in Pakistan.**

**Conditions.**

- I. The Micro Finance Bank/Institution desirous of raising FSBA shall submit draft term sheet of the loan for obtaining “in-principle” approval to the Exchange Policy Department of the State Bank.
- II. After obtaining in-principle approval, Micro Finance Bank/Institution will submit the request through an Authorized Dealer alongwith the following documents to Exchange Policy Department of the State Bank:
  - Request letter duly signed by the CEO/CFO of the borrowing bank/institution.
  - Original loan/credit agreement alongwith three (03) authenticated copies.
  - A copy of the final repayment schedule on Appendix V-92.
  - An undertaking by the borrower bank/institution that the loan agreement is compliant with the provisions of legal and regulatory framework applicable to the lender and the borrower.
- III. The State Bank will allocate LRN and intimate the Authorized Dealer accordingly.

- IV. Upon complete disbursement of foreign currency loan in accordance with the registered loan agreement, the Authorized Dealer will submit the Proceeds Realization Certificates, in original, within fifteen (15) days of disbursement to the Exchange Policy Department, State Bank of Pakistan, Karachi.
- V. The Authorized Dealer will remit principal and interest, once the borrower is assigned with LRN by the State Bank. A copy of the Proceeds Realization Certificate, a certificate confirming the applicable benchmark rate and a certificate confirming payment of applicable taxes will be attached with the Form 'M' indicating LRN, as remittance authority at the time of submitting the returns to the relevant area office of the Foreign Exchange Operations Department, SBP-Banking Services Corporation.

### **Long Term FSBAs to be raised by the Authorized Dealers.**

#### **Documentation Requirement.**

- Request letter duly signed by the President/CEO of the applicant institution.
- Purpose and rationale for raising such loans.
- Details of utilizations of the proceeds.
- Repayment schedule and mechanism.
- Details of the collaterals or other securities offered.

### **FSBAs to be raised by other Financial Institutions i.e. NBFIs, Leasing Companies, House Building Finance Companies & Insurance Companies.**

#### **Documentation Requirements.**

- Request letter duly signed by the President/CEO of the applicant institution.
- Purpose and rationale for raising such loans.
- Details of utilization of the proceeds.
- Repayment schedule and mechanism.
- Details of the collaterals or other securities offered.

### **FCY Trade Financing from Abroad (FTFA).**

The Authorized Dealer will furnish the following documents to Exchange Policy Department, State Bank of Pakistan, Karachi:

#### **Import Loan.**

#### **Documentation Requirements.**

- Request letter duly signed by the importer.
- Loan Agreement, in original, along with three (03) authenticated copies.
- Detail of Goods to be imported, under the subject agreement, along with the timelines involved therein.
- In case of Buyer's credit, the Purchase Contract, in original, along with three (03) authenticated copies.

**Other Conditions.**

- I. The interim payments during the gap between obtaining loan registration number and repayment schedule registration, Authorized Dealer will approach Exchange Policy Department, State Bank of Pakistan, Karachi to get permission to remit principal repayments and interest payments.
- II. Once the liability to the foreign lender/supplier of plant and machinery etc. is established through Exchange Entitlement Certificates (EEC), the repayment schedule as per Appendix V-87 will be submitted to Exchange Policy Department, State Bank of Pakistan, Karachi in quadruplicate through the same Authorized Dealer.
- III. The Authorized Dealer will subsequently remit the principal, interest and other fees, if required. A copy of the Proceeds Realization Certificate, a certificate confirming the applicable benchmark rate, a certificate confirming payment and copy of repayment schedule of applicable taxes will be attached with the Form 'M' indicating LRN and as remittance authority at the time of submitting returns to the concerned area office of the Foreign Exchange Operations Department, SBP-Banking Services Corporation.

**Export Loan.**

**Documentation Requirements.**

- Request letter duly signed by the exporter.
- Loan Agreement in original along with three (03) authenticated copies thereof.
- Copy of the relevant Letter of Credit.
- A copy of the final repayment schedule (Appendix V-92).

**Other Conditions.**

- I. The State Bank will allocate LRN and intimate the Authorized Dealer accordingly.

- II. Upon complete disbursement of foreign currency loan in accordance with the registered loan agreement, the Authorized Dealer will submit the Proceeds Realization Certificates (PRC) within fifteen (15) days of disbursement, in original, to the Exchange Policy Department State Bank of Pakistan.
- III. The Authorized Dealer will remit the principal and interest, once the borrower is assigned with LRN by the State Bank. A copy of the Proceeds Realization Certificate, a certificate confirming the applicable benchmark rate and a certificate confirming payment of applicable taxes, will be attached with the Form 'M' indicating LRN, as remittance authority at the time of submitting the returns to the concerned area office of the Foreign Exchange Operations Department, SBP-Banking Services Corporation.

### **Guarantees.**

#### **Documentation Requirements.**

- Authorized Dealer's letter containing full details/ comments/recommendations.
- Applicant's request.
- Format of Bank Guarantee.
- Copy of Agreement.
- Copy of purchase order/contract, in case of advance payment guarantee.
- Details of claims received against guarantee at the time of request for renewal of Bank guarantee, if any.

#### **Any other documents.**

In addition to the documents mentioned above, the State Bank may ask for any other document/ information, as and when deemed necessary.

## **Part-G Reporting Mechanism**

#### **Reporting Requirements.**

The data will be reported on FCY loans portal of Statistics & Data Warehouse Department, State Bank of Pakistan with proper purpose codes assigned by the same department. Further, Authorized Dealers will get the LRN for loans exceeding USD one (1) million from Exchange Policy Department, State Bank of Pakistan. However, for loans upto USD one (1) million, LRN will be issued by Statistics & Data Warehouse Department, State Bank of Pakistan.



**Subsequent Amendments (if any) in the Loan Agreement.**

Any changes/amendments in the terms and conditions of the duly registered Loan Agreement, after obtaining the LRN from the State Bank, will require prior approval of Exchange Policy Department, State Bank of Pakistan.

**Regulatory Action on account of Non-Compliance of Rules and Regulations.**

In case of non-compliance of rules and regulations and non-submission/late submission of any of the above mentioned returns/ reports, regulatory action shall be taken against concerned Authorized Dealer under the provisions of the Foreign Exchange Regulation Act, 1947.