

CHAPTER 4
FORWARD EXCHANGE FACILITIES

Contents:

1. General.
2. Forward Quotations.
3. Forward purchase of foreign exchange against export of goods.
4. Forward sale of foreign exchange against import of goods.
5. Forward Cover against Foreign Private Loans.
6. Forward sale against investment by Non-Residents.
7. Forward transactions between Authorized Dealers.
8. Forward transactions with overseas branches and correspondents.
9. Omitted.
10. Extension of forward contracts for exports.
11. Discounting of usance export bills.
12. Rates at which forward contracts may be closed out.
13. Cancellation of forward contracts by the State Bank.
14. Switch over of exchange contract in cover of imports/exports.
15. Forward cover against foreign currency accounts.

CHAPTER 4

FORWARD EXCHANGE FACILITIES

1. General.

(i) Authorized Dealers may enter into contracts for forward purchase or sale of foreign currencies subject to the regulations set out in this chapter. Before entering into a forward exchange contract with the customers, the Authorized Dealers should satisfy themselves about the bonafides of the applicants and ensure that forward cover is required for genuine and firm transactions of approved nature. For this purpose, they should call for verification, the offers and acceptance and/or duly signed formal contracts and/or letters of credit. Authenticated photocopies of these documents should be retained by the Authorized Dealers. The number and date of the forward contract should be endorsed by the Authorized Dealers under their stamp and signature on the copies including the originals. Similarly, Authorized Dealers should indicate, on the relative forward contract, the particulars of the documents which have been verified by them and on the basis of which the forward contract has been booked.

(ii) Forward cover may be provided even if the letter of credit has been opened through another Authorized Dealer or contract has been registered with or export documents have been handled by another Authorized Dealer. Such cover would be provided on the basis of a certificate from the concerned Authorized Dealer in favour of a specified Authorized Dealer confirming, inter-alia, that no forward cover has been provided by it against the transaction.

2. Forward Quotations.

Authorized Dealers may provide forward cover for exports, imports, foreign private loans covered under paragraph 8, Chapter 19 (on roll-over basis) and repatriable foreign currency loans mentioned in paragraph 15, Chapter 19 of the Manual (excluding loans obtained by foreign contractors and branches of foreign companies) for any duration subject to any restriction mentioned in subsequent paragraphs, in accordance with the conditions prevailing in the market.

3. Forward purchase of foreign exchange against export of goods.

(i) In the case of export of goods from Pakistan against a firm contract, Authorized Dealers may purchase foreign currencies forward for delivery upto six and a half months from the last date of shipment as provided in the contract /letter of credit. Such purchases may be made at any time from/after the date of contract/ letter of credit. Purchases in case of exports on consignment sale basis may be made at any time after the shipment has taken place but the last date of delivery should not fall after six and a half months from the date of shipment. In both the cases of exports against firm contract and on consignment basis where State Bank's prior approval has been obtained for the realization of sale proceeds beyond six months, the purchase contract may provide for delivery upto fifteen days after the extended date for realization.

(ii) In the case of export of goods to be invoiced in any convertible currency other than U.S. Dollar, it is permissible for the Authorized Dealers to buy forward the concerned currency in terms of U. S. Dollar, if the exporter wishes to cover only such risk and to carry dollar versus rupee risk himself. On realization of such proceeds the equivalent U.S. Dollar amount at the booked rate will not be delivered but converted at the spot rate and the rupee equivalent will be paid to the exporter. In case, an exporter does not want to carry Dollar versus Rupee risk himself and wants to cover the same in the forward market, the same would also be permissible. The Authorized Dealers will conduct such transactions within their approved Foreign Exchange Exposure Limits.

4. Forward sale of foreign exchange against import of goods.

(i) Authorized Dealers are also allowed to provide forward cover facility against imports on L/C basis for a period not less than one month and up to a maximum period of one year on roll over basis subject to observance of all other related rules and regulations. Furthermore, close out of any forward contract cannot take place within one month of its booking. In case payment has to be made against letter of credit within one month of the forward contract, the prevailing spot selling rate will be applied and the relevant forward contract will be closed out at the end of one month from the booking date. Forward booking may be provided only against letters of credit. Under no circumstances the Authorized Dealers would provide forward bookings against contracts etc. Authorized Dealers may sell foreign currencies forward in cover of imports into Pakistan on cash basis only against letters of credit subject to compliance of all related instructions and observance of the following terms and conditions:

- a) Forward cover facility will be made available to importers against the Letter of Credit only.
- b) No forward cover facility will be provided for a period of less than one month. Roll over in those cases where import payment is not made in accordance with the schedule, will be allowed subject to the condition that the roll over is not less than one month. Thus, in cases where extension period for import payment is less than one month beyond the maturity date of the forward contract, forward cover shall not be further rolled over.
- c) Maturity of forward contracts against import should coincide with the maturity of the underlying Letter of Credit. In case of a usance L/C which requires payment to be made after a given number of days of shipment and the shipment date has been determined on or before the L/C expiry date, the forward contract can be rolled over on forward maturity date to coincide with L/C payment date, subject to the condition that the roll over is not less than one month. In case the shipment period is not determined on the L/C expiry date, forward cover cannot be rolled over and has to be closed out at the prevailing exchange rate on the L/C expiry date.

- d) Where L/C payment is due before L/C expiry/forward maturity, forward contract would have to be taken up on the date when the payment is due for delivery to the customer.
 - e) Even in cases where partial shipments are allowed, the forward contract against import should coincide with the maturity of the underlying letter of credit. In case of partial payment prior to the L/C expiry date, the forward contract can be taken up to the extent of the partial payment. In case of partial payments after the L/C expiry date, the condition/clarification mentioned at (c) above will be applicable.
 - f) In cases where the import Letter of Credit has 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 L/C whichever is less; subject to the condition that the tenor of the forward cover should not be for less than one month.
 - g) If the terms of the Letter of Credit are amended to extend its tenor in accordance with the regulations stipulated in Para 9 of Chapter 13 of the Manual, the importers can rollover the forward cover on the original maturity date of the forward contract coinciding with new maturity of the underlying L/C, subject to the condition that the forward cover is not less than one month.
 - h) All forward contracts against which the underlying L/Cs are cancelled are required to be closed out on maturity at prevailing exchange rates and differential is settled between the importer and the bank. However, all such cases, where underlying L/Cs were cancelled will be submitted to Domestic Markets and Monetary Management Department (DMMD) on the date of cancellation of L/Cs with full details as per prescribed format (Appendix V-1).
 - i) Authorized Dealers will ensure that the facility is being availed for genuine import transaction and that the importers do not hedge more than the underlying exposure. Furthermore, if during SBP's inspection or at any point of time, it is found that the said facility was misused and was not against genuine transactions, action will be taken by SBP under the provisions of Foreign Exchange Regulation Act, 1947, against the concerned Authorized Dealer and the importer.
- (ii) In the case of import of goods invoiced in any convertible currency other than U.S. Dollar, it is permissible for Authorized Dealers to sell forward the concerned currency in terms of U.S. Dollar, if the importer wishes to cover only such risk and to carry dollar versus rupee risk himself. On the date of such payment, the equivalent U.S. Dollars amount at the booked rate will not be claimed but converted at the spot rate and the rupee equivalent would be claimed from the importer. In case, importer does not want to carry Dollar versus Rupee risk himself and wants to cover the same in the forward market, the same would also be permissible. The Authorized Dealers shall conduct such transactions within their approved Foreign Exchange Exposure Limits.
- (iii) Forward cover facility is not allowed in respect of the following: -

- a. Import of crude oil and POL products.
- b. Imports by Federal or Provincial Government Departments or Corporations set up by Government and Industrial undertakings in which Government holds majority interest other than TCP and those public sector undertakings which export part of their products.

5. Forward Cover against Foreign Private Loans.

Authorized Dealers may provide forward cover facility to their customers against Foreign Private Loans subject to compliance of related regulations on the subject and the following terms and conditions:

- (i) Minimum tenor of forward contract against such loans shall be twelve months or remaining maturity of the underlying foreign private loan, whichever is less. In either case no forward cover facility will be provided for a period of less than one month.
- (ii) In cases where the underlying foreign loan has 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; subject to the condition that the tenor of the forward cover should not be for less than one month.
- (iii) Authorized Dealers will ensure that the facility is being availed for genuine transaction and that the customers do not hedge more than the underlying exposure. Further, if during SBP's inspection or at any point of time, it is found that the said facility was misused and was not against genuine transactions, action will be taken by SBP under the provisions of Foreign Exchange Regulation Act, 1947, against the concerned Authorized Dealer and the customer.

6. Forward sale against investment by Non-Residents.

Authorized Dealers may sell foreign currencies forward to non-residents for portfolio investment made by them in rupee denominated shares and securities on repatriation basis out of funds remitted from abroad, as permitted vide Chapter 20 of the Manual. The forward cover can also be provided on the date of conversion of foreign currency into rupees, pending their investment. Such sales would be made only for the amount brought in or the face value of the security, whichever is higher. No forward cover will be provided for dividend/interest/coupon income. Forward cover will also not be provided for Foreign Direct Investment. The maximum period of sales should be twelve months, which may be extended in the manner laid down in paragraph 10.

7. Forward transactions between Authorized Dealers.

Authorized Dealers may freely enter into forward transactions with each other, provided their Foreign Exchange Exposure at the end of the day remains within the prescribed limits.

8. Forward transactions with overseas branches and correspondents.

Authorized Dealers may enter into forward transactions with their overseas branches and correspondents in respect of currencies other than U.S. Dollar, for transactions entered into by them with their customers.

9. Omitted.

10. Extension of forward contracts for exports.

It would be permissible to extend the forward contracts for exports even for less than one month if the export proceeds have not been realized and extension in the period of realization has been granted by the Authorized Dealer/State Bank. Such extensions would be made by closing out the original contract and booking of a fresh contract at the new rate.

11. Discounting of usance export bills.

In case an exporter books forward cover and presents thereagainst an export bill for discounting, the Authorized Dealer may treat discounting of the usance or sight bill as delivery against the forward contract provided such bills are presented for discounting during the option delivery period only. In all other cases the foreign currency receipts in respect of discounted bills will not be considered as delivery against forward contract and the Authorized Dealer will discount the bill at its current applicable rate and close out the contract on maturity.

12. Rates at which forward contracts may be closed out.

(i) Forward contracts, which are not taken up, may be closed out on the date of maturity. In case of closure of forward exchange contracts, the difference between the booked forward rate excluding the element of usance, if any, and the prevailing spot rate for the counter transaction on the day of the maturity will be recoverable from or payable to the customer, as the case may be.

(ii) The State Bank reserves the right to direct under sub-section (2) of section 4 of the Foreign Exchange Regulation Act, 1947 that all forward contracts or any particular forward contract or class of forward contracts shall be closed out at the rate ruling on the day on which they were booked or on any other day within the currency of the contract(s) at its discretion and not necessarily at the rates prevailing on the day on which they are closed out.

13. Cancellation of forward contracts by the State Bank.

If in any particular case or cases State Bank is not satisfied with the transactions for which forward cover has been booked, it may direct the Authorized Dealers to cancel the forward contract immediately or within such period as it may prescribe.

14. Switch over of exchange contract in cover of imports/exports.

- (i) Where the foreign beneficiary of a letter of credit is changed in accordance with the instructions contained in Chapter 13 of the Manual, Authorized Dealers may allow the forward foreign exchange booked in respect of the original letter of credit to be used for the new letter of credit provided the currency and the description of the commodity of the new letter of credit are the same as of the original letter of credit.
- (ii) Where delivery against a forward sale made by an exporter against a particular contract or letter of credit cannot be made due to non-shipment, the exporter may give delivery out of export proceeds repatriated by him against other contract/letter of credit.

15. Forward covers against foreign currency accounts.

Persons (other than individuals) maintaining foreign currency accounts with the Authorized Dealers in Pakistan can sell forward the balances held in their accounts to the importers in connection with import letters of credit/indents, proforma invoices, orders registered with the Authorized Dealers for imports on consignment basis. The procedure to be followed in this regard is as under:

- (i) The importer and foreign currency account holder (hereinafter called the “seller”) will agree to the deal under intimation to the Authorized Dealer. For smooth conduct of transaction, it is necessary that the importer and seller are the customers of the same Authorized Dealer.
- (ii) The seller will authorize the Authorized Dealer to mark a lien on the respective foreign currency account to the extent of the amount involved.
- (iii) The Authorized Dealer will make separate arrangement with the importer for recovery at the opportune time of rupee equivalent at the forward rate agreed to between the importer and the seller.
- (iv) As and when payment is required to be made for imports:
 - a. The Authorized Dealer will debit the foreign currency account of the seller, take delivery of the amount from State Bank by lifting the cover, where cover has been obtained, take the foreign currency amount in the Nostro account, report the same as inward remittance under the code meant for Home Remittance and credit rupee equivalent at the forward rate to the seller’s non-convertible rupee account.
 - b. Simultaneously, the Authorized Dealer will lodge the documents in its books at the forward rate agreed to between the importer and seller. The rupee recoveries from the importers will be made by the Authorized Dealer as per its own arrangement.
 - c. The Authorized Dealer will report the import transaction in the prescribed monthly foreign exchange returns.

- (v) In case the importer fails to take up the contract arranged with the seller, it will be closed out and the exchange rate differential settled on the maturity date in the same manner as other forward sale contracts are closed out in accordance with paragraph 12 of this chapter.
- (vi) The provisions of paragraphs 4 & 10 of this chapter will also apply to the forward contracts made in terms of this para.