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## INTRODUCTORY

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## **CHAPTER 1**

### **INTRODUCTORY**

#### **1. Foreign Exchange Regulation Act, 1947 and Notifications issued thereunder.**

Foreign Exchange Policy and its operations in Pakistan are formulated and regulated in accordance with the provisions of the Foreign Exchange Regulation Act, 1947. The object of this Act is to regulate, in the economic and financial interest of Pakistan, certain payments, dealings in foreign exchange, securities, import/export of currency and bullion. Under the Act, the basic regulations are issued by the Government of Pakistan and the State Bank in the form of Notifications which are published in the official Gazette. The Act, as amended up-to date, is reproduced at the end of the Manual as Appendix I. Notifications issued by the Federal Government under the Act, except those issued in terms of sub-section (2) of Section 19, sub-section (2) of Section 23 and Section 23-B are reproduced as Appendix II and those issued by the State Bank are reproduced as Appendix III.

#### **2. Directions issued under the Act.**

For the purpose of securing compliance with the provisions of the Act and the Notifications and any rules, orders or directions issued thereunder, the State Bank may, under sub-section (3) of Section 20 of the Act, give directions to Authorized Dealers, travel agents, carriers, stock-brokers and other persons who are authorized by the State Bank to do anything in pursuance of the Act, in regard to making of payments and carrying out other acts in the course of their business. Directions having general application are issued in the form of public notices, F.E. circulars and circular letters etc. Instructions issued by the State Bank to the Authorized Dealers, travel agents, carriers, etc., upto 30-04-2017, setting out the terms and conditions subject to which they may engage in transactions covered by the Act, have been incorporated in this Manual. Contents of this Manual and all instructions, directions, orders etc., issued under the Act are without prejudice to the provisions of any other law of Pakistan or any rules, notifications, orders, directions or regulations made thereunder.

#### **3. Amendments.**

Changes in the regulations are generally advised by issue of F.E. circulars. This edition of the Manual has been issued in electronic form (searchable PDF) and is available at the website of State Bank of Pakistan ([www.sbp.org.pk](http://www.sbp.org.pk)). Amendments in the provisions of the Manual will be periodically updated and placed at SBP's website. It will be in the interest of Authorized Dealers and other holders of the Manual to ensure that they have updated Manual and related Circulars, Circular Letters issued from time to time.

**4. Jurisdiction of the Exchange Policy Department of State Bank, Foreign Exchange Operations Department, SBP-Banking Services Corporation and Field Offices of the SBP-Banking Services Corporation.**

Under the Act, the State Bank is responsible for day to day administration of foreign exchange policy which is exercised through its Exchange Policy Department (EPD) and foreign exchange operations through Foreign Exchange Operations Department (FEOD), SBP-Banking Services Corporation (BSC). The Principal Office of EPD is situated at State Bank of Pakistan, Karachi under the charge of a Director while the Principal Office of FEOD is situated at SBP-Banking Services Corporation, Head Office, Karachi under the charge of a Director. FEOD has also following offices with the jurisdiction of each Office mentioned thereagainst:

<b>Office</b>	<b>Jurisdiction</b>
1. Foreign Exchange Operations Department, SBP Banking Services Corporation, Karachi:	Principal Office/Karachi Division.
2. Hyderabad:	Hyderabad and Mirpurkhas Divisions.
3. Sukkur:	Sukkur and Larkana Divisions.
4. Quetta:	Quetta, Kalat, Sibi and Mekran Divisions.
5. Lahore:	Lahore Division.
6. Faisalabad:	Faisalabad and Sargodha Divisions.
7. Sialkot:	Sialkot District.
8. Multan:	Multan and Dera Ghazi Khan Divisions.
9. Rawalpindi:	Rawalpindi Division
10. Islamabad:	Federal Capital Area of Islamabad.
11. Peshawar:	Hazara, Kohat, Malakand and Peshawar Divisions.
12. Gujranwala:	Gujranwala Division, excluding Sialkot District.
13. D. I. Khan:	Dera Ismail Khan Division.
14. Bahawalpur:	Bahawalpur Division.
15. Muzaffarabad:	Azad Kashmir.

**5. Authorized Dealers to notify the Regulations to their Customers and to report Cases of Evasion.**

(i) Authorized Dealers are required to bring the Foreign Exchange regulations to the notice of their customers and to ensure compliance in their day to day operations. They should also report to the State Bank every case of evasion or attempt, direct or indirect, at evasion of the provisions of the Act and Notifications or any rules, orders or directions issued thereunder, immediately as it comes to their notice.

(ii) Authorized Dealers must arrange suitable training courses in areas related to foreign exchange for their staff from time to time to ensure capacity building of their staff handling foreign exchange related matters.

## **6. References to the State Bank/SBP-Banking Services Corporation.**

(i) Authority has been delegated to the Authorized Dealers to approve certain transactions on behalf of the State Bank. In these cases, Authorized Dealers should, before approving any transactions, satisfy themselves about the bonafides of the applicant and the genuineness of the transaction by verifying the necessary documents.

(ii) They should refer to the Exchange Policy Department, State Bank/Foreign Exchange Operations Department, SBP-Banking Services Corporation alongwith their recommendations/ comments only those cases which they are not authorized to approve, in the following manner:

- a) All policy matters, investment related issues and cases involving waiver from any provision of the FE Manual, or where no explicit guidelines are provided in the Manual to the Director, Exchange Policy Department, State Bank of Pakistan, I. I. Chundrigar Road, Karachi.
- b) All operational matters pertaining to the following may be referred to the respective field offices of SBP-Banking Services Corporation or Director, Foreign Exchange Operations Department, SBP-Banking Services Corporation, Head Office, Subsidiary House, I. I. Chundrigar Road, Karachi:
  - (i) Export & Import
  - (ii) Export Outstanding/Overdue
  - (iii) Export Verification Claims/Performance
  - (iv) Commercial Remittance (Insurance, Shipping & Airlines)
  - (v) Oil & Shipping Issues
  - (vi) Commission Related Remittances
  - (vii) Private Remittance
  - (viii) Submission of Returns & Statistical Data
  - (ix) Exchange Allocations & Releases
  - (x) Processing of Foreign Exchange Allocation as per approved budget
  - (xi) Processing of Royalty, Technical Fee payment request
  - (xii) Branch/Liaison Offices
  - (xiii) Miscellaneous Remittances (M-Form) pertaining to IT, Board of Director Meeting Fees, Media Commercial Charges and expenses pertaining to Training/Study/Travelling/Conferences & Seminars
  - (xiv) All other operational matters

(iii) While referring cases to the State Bank/SBP-Banking Services Corporation, Authorized Dealers should ensure that the applications are on the prescribed forms, wherever

such forms are prescribed and are supported by appropriate documentary evidence. In all these cases it will be deemed that they have satisfied themselves about the bonafides of the applicants and the correctness of the statements made by them on the application and the accompanying documents, if any.

(iv) In order to streamline the process for expeditious disposal of the cases/references, Authorized Dealers must ensure that the same are forwarded to Exchange Policy Department after proper review/scrutiny in the light of above referred instructions. Further, all references seeking clarification on the regulations/instructions and all other cases, except routine and prescribed statements/returns/information, shall be signed at least at the level of respective Departmental/Business/Group Head of the bank. It may carefully be noted that the references/cases received without following the above procedure shall not be attended and shall be returned back in original to the respective Authorized Dealer.

## **7. Submission of Returns to the State Bank/SBP-Banking Services Corporation.**

Authorized Dealers must submit to the State Bank/SBP-Banking Services Corporation returns of their dealings in foreign exchange on due dates in the forms prescribed in the Manual. Specimens of all application forms and returns prescribed by the State Bank are given in Appendix V.

## **8. Stationery.**

(i) Forms 'M', 'T-1', 'E' and 'I' will be got printed by the Head/Principal Offices of the Authorized Dealers themselves strictly according to the size, contents and format of the specimens supplied to them by the State Bank. These forms should bear an identifying prefix as per Appendix IV followed by serial numbers in six digits except in the case of form 'E' which will have seven digits. For example, the first number of all the forms printed by XYZ bank except form 'E' will be "XYZ 000001" (i.e. six digits) and so on, and in the case of form 'E', the serial number will be "XYZ 0000001" (i.e. seven digits) and so on. The other prescribed forms may also be got printed by the Authorized Dealers themselves. These must conform exactly in size, content and format to the respective forms prescribed by the State Bank.

(ii) As omission of any part in the printing of the forms is likely to make a material change and may weaken the position of the State Bank legally, Authorized Dealers should take utmost care in the printing of the forms. They should also keep an updated record of the forms printed and distributed to their branches, which should be kept adequately stocked to avoid any complaint on account of non-availability of the forms.

## **9. Definitions.**

Terms having special meanings for the purposes of the Act have been defined in Sections 2 and 13 of the Act.

- i) For the purposes of Section 13 of the Act the term "persons resident outside Pakistan" covers a foreign national including foreign nationals of Indo-Pak origin as also Pakistanis holding dual nationality for the time being resident in Pakistan. A company registered in Pakistan which is controlled directly or indirectly by "persons resident outside Pakistan" is, for the purposes of Sections 13 and 18 of the Act, treated as a "person resident outside Pakistan".
- ii) For the purposes of Section 5 of the Act the term "persons resident outside Pakistan" also includes nationals of Pakistan and persons domiciled in Pakistan, except persons holding office in the service of Pakistan, who go out of Pakistan for any purpose.
- iii) In respect of purposes other than the above, a resident person, bank or firm is a person who resides in Pakistan. A non-resident is a person, bank or firm, who resides outside Pakistan. No definite rules can be laid down for determining whether a person is ordinarily resident in Pakistan but there is a presumption that a person is resident if he maintains a home in Pakistan, or resides in the country for a substantial part of each year, or pays income tax as a resident of Pakistan. On the other hand, the fact that a person gives an address in Pakistan does not necessarily mean that he should be regarded as a resident if he is in fact only a temporary visitor and is ordinarily resident outside Pakistan.
- iv) The following terms used in the Manual are described below:
  - a) **Rupee-** 'Rupee' means the Pakistan Rupee unless otherwise specified.
  - b) **Act-** 'Act' means the Foreign Exchange Regulation Act, 1947.