

## **Chapter # 2**

### ***Foreign Exchange Operations & Adjudication.....***

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- Overview
- FEOD Scope of Operations
- Steps taken for Facilitation & Improvement
- Development Plan
- Foreign Exchange Adjudication

## **2 FOREIGN EXCHANGE OPERATIONS AND ADJUDICATION**

### **2.1 Overview**

Among other things SBP Banking Services Corporation Ordinance envisages that while the core function of exchange rate management and policy formulation associated therewith will be performed by the EPD of SBP, the operational work relating to this core function will be undertaken by a department of the BSC. Accordingly, this work has been entrusted to the FEOD of BSC. It may be added that one of the main reasons for this functional split was to ensure improvement in service standards in the delivery of services related to foreign exchange which are provided by field offices of BSC all over the country. Thus the FEOD acts as a strong interface with the EPD of SBP for implementing foreign exchange policy related measures of SBP.

### **2.2 FEOD- Scope of Operations**

The responsibilities of the FEOD primarily relate to facilitation for importers and exporters in carrying out their legitimate transactions incidental to their business. Ever since establishment of the department its core functions have been gradually expanded and presently they can be categorized as under:-

- Facilitating importers and exporters;
- Allowing private remittances on various accounts;
- Handling of monthly returns;
- Facilitating government functionaries / agencies in disbursement of budgetary allocations for the foreign exchange;
- Providing data collection support to SBP through different statements and returns;
- Research & Development support to Textile Industry;
- Verification of export performance of the exporters to facilitate provision of Export Finance under the Export Finance Scheme of the SME Department of the SBP;
- Monitoring of export overdue cases;
- Issuing show cause notices to the defaulting exporters and referring the cases to Foreign Exchange Adjudication Department;
- Responding to the queries of the field offices and authorized dealers in matters relating to foreign exchange transactions.

While dealing with the responsibilities mentioned above, FEOD has now embarked upon a continuous follow up approach. In October 2004, the Exchange Policy Department also assigned to FEOD the operational task of giving approval to commitments (Release) against exchange allocation with the exception of approval relating to defence, oil and gas which are still being given by the EPD. All documentations are not only thoroughly checked, but probed and discussed before processing. Discussions are held to dispose off the matters more tactfully. All remittances are now pre-audited and released only when all conditions and formalities are fulfilled. In addition to abovementioned responsibilities FEOD also oversees the operations of BSC's field offices as well as monitor foreign exchange operational management in the area of Karachi.

### **2.3 Steps taken for Facilitation and Improvement**

During FY05, the departmental procedures and approach to deal with the cases of remittances, approvals for importers, exporters, shipping companies, airlines, were reviewed. Another development in respect of Exchange Accounts was the issuance of allocations for six months instead of one month by the Ministry of Finance. To efficiently maintain the Exchange Account balances, MS Access based software has been developed within the Department and is being used in parallel to the

manual system. Statements and advices are being generated through this software. At present the functions of preparation of various statements and statistics are being performed in various units of the Department. It was felt that these functions should be centralized under a single division to be called Vital Statistics Division. The idea is being studied and groundwork has been done. The Division will soon be created which will ensure efficient compilation, reporting and facilitate all the stakeholders

### **2.3.1 Exchange Allocations**

The SBP continued its policy of decentralizing and delegating the operational control of a number of foreign exchange transactions to the BSC. In October 2004 Exchange Policy Department (EPD), SBP shifted the operational task of giving approvals to Commitments (Releases) against exchange allocations. Earlier, exchange allocation work was also being performed by EPD of the SBP and FEOD was only forwarding the letters received to it. However, approvals relating to defence, oil and gas are still being given by the SBP.

### **2.3.2 Delegation of Powers to Offices**

At present various types of cases are forwarded by the field offices to Head Office for approval. In order to enable fast disposal of cases, it has been decided to empower the offices to approve routine cases. In this connection, specific guidelines for the offices are being prepared for each type of case. Offices have now been empowered to give approvals for the following two types of cases:

- References from Pakistan Post Office to release foreign currency notes confiscated from international incoming mail.
- Requests of foreign embassies to remit visa fee collected by them.

Detailed guidelines have been provided to the offices to deal with these cases effectively. Head Office will monitor the performance of the offices through periodic reports submitted by them.

### **2.3.3 Export Overdue Cases**

In order to remove redundancies, streamline processes and improve workflow, several studies are being conducted. A prominent reorganization step is the consolidation of functions related to export overdue. Earlier, there was some overlapping in the processing of export overdue cases as these were being handled in two units. Initially the cases were processed in the Export Unit issuing two show cause notices to the defaulting exporter. Later these cases were transferred to Legal and Enforcement Unit, where similar process was performed before putting the cases in Export Advisory Committee. Therefore, it was decided to integrate the function in Legal and Enforcement Unit. As a result several repetitions and redundancies have been eliminated. After this reorganization, there has been significant improvement in the quality and quantity of processing of cases. Three meetings (two in Karachi and one in Lahore) of the Export Advisory Committee were held during the FY05. Twenty four cases decided in the Export Advisory Committee's meetings have been sent to FEAD after expiry of final show cause notice period. More than 300 cases decided to be sent to FEAD in Karachi are in the process of issuance of final show cause notices. Final show cause notices on 362 cases decided in the meeting of Export Advisory Committee held in Lahore have been issued so far.

### **2.3.4 Active Coordination with Stakeholders**

To improve coordination with line departments of SBP particularly Exchange Policy Department and Statistics Department, a number of steps have been taken to dispose off the policy matters, queries, and grievances in prompt manner. A participative approach has been developed. In this respect, a meeting with the representatives of authorized dealers was held on March 17, 2005. Representatives of the Statistics Department, SBP were also invited. The representatives of the authorized dealers were briefed about the common discrepancies and advised to improve the reporting mechanism. As a

result of the meetings and continuous perusal by the Returns Unit, the reporting system to Statistics Department has been improved.

### **2.3.5 Reviewing Working Procedure to Facilitate Stakeholders**

In order to facilitate various stakeholders of BSC, the business processes of the department were analyzed and reviewed. Checklists for all the functions of the department were prepared so that stakeholders submit their cases according to the checklist and turnaround time of cases could be reduced in responding to the references and queries, etc. Further, redundant procedural steps have been eliminated. Resultantly the department is able to reduce the turnover time for most of the cases up to 7-10 days from 14 days.

The working setup of a few units such as Export and Import Units has been reviewed and assignments of some other Unit Incharges have been clubbed where possible to manage the staff strength and also to streamline the composition of work order relating to policy references of export, import, etc. The work related to Export Overdue cases of Karachi was earlier dealt within Export Section. Now it has been assigned to Legal & Enforcement Unit. Due to this change, the duplication in prosecution steps has been eliminated and work flow steps of show cause notices to authorized dealers and exporters have been reduced.

### **2.3.6 Preparation of Working Protocol of the Department**

In an effort to make the department a model department to work in and to create such an environment where every incumbent of the department has a distinguished identity and members of other departments are desirous to be a part of it, a departmental Working Protocol has been developed. This Protocol is not an addition or supplement to the Staff Regulations of BSC. It contains certain personal norms and ethical principles to enable our incumbents to work with discipline and decorum suitable for BSC.

### **2.3.7 Elimination of Redundant Returns**

It was felt that the Returns Unit was not working on modern lines. To study the possibility of bringing modernization in its working, a Focus Study Unit has been established in the department headed by an Assistant Director, to effectively handle the job. It is hoped that the department will soon be able to re-organize the functions of Returns Unit on modern lines.

### **2.3.8 Computerization**

Different types of correspondence and approvals which were done manually are being converted into MS Word and MS Excel. Computerization of these functions will improve efficiency, accuracy and save time. A detailed study of the computerization needs of the department was performed and requisition for the same was sent to ISD, SBP which will accommodate these requirements during 2005-06. During 2004-05 fifteen Pentium3 computers have been provided by ISD, SBP. The department also plans to impart basic computer training to its officials by utilizing in-house talent and equipment. This program will be started soon after the installation of UPS and necessary Networking connections for the computers. The operational gains will further be materialized once more PCs would be available and skill gap is reduced by availing of training opportunities through NIBAF and other sources.

### **2.3.9 Enhanced Communication Network / Revamping FEOD Link on Electronic Bulletin Board**

The FEOD part of the Electronic Bulletin Board (EBB) has been completely revamped and updated. Useful information about the department and statistics such as remittances on account of Reuters & SWIFT charges, amount of Letter of Credits (L/Cs) opened; etc has been placed on board and updated regularly. Further, the department is contemplating on uploading important statistics of work such as Number of E Forms, M Forms, etc processed in a month. Written communications are being

encouraged instead of verbal discussions so that important notes are documented and to make the process transparent.

## 2.4 Development Plan

The BSC intends to initiate different development plans which will improve the foreign exchange operations and facilitate the stakeholders

<b>Table 2.4 Development Plans of Foreign Exchange Operations</b>		
<b>S #</b>	<b>Development Plan</b>	<b>Time Line</b>
1	Creation of Vital Statistics Division with the FEOD	March 2006
2	Installation of database system for various functions ie; <ul style="list-style-type: none"> <li>• Export overdue cases</li> <li>• Exchange Accounts maintenance</li> <li>• Compilation of various statements from those submitted by authorized dealers</li> <li>• Database of various forms as Form I, Form M, etc</li> </ul>	January 2006 September 2005 October 2005  December 2005
3	Elimination of redundant returns	June 2006
4	Reduce turnover time for stakeholders	December 2005
5	Enhance communication network by placing information on EBB	December 2005
6	Further improvement in physical environment of the Department	November 2005

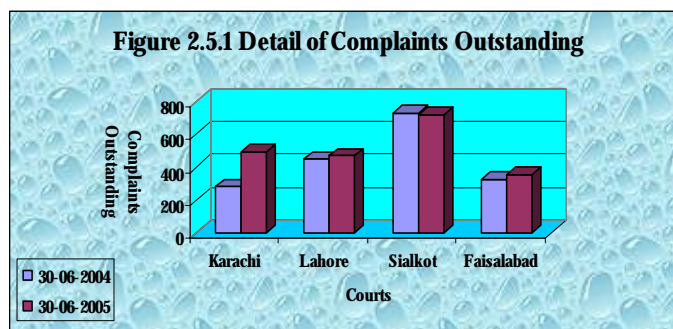
## 2.5 Foreign Exchange Adjudication

In 1987 the government made an amendment in the Foreign Exchange Regulation Act for the purpose of setting up of the Foreign exchange Adjudication Courts under the aegis of the SBP. In pursuance of this amendment, SBP established Foreign Exchange Courts at various centers of the BSC (then the SBP) which started functioning from December 1990 after issuance of the notification regarding appointment of Adjudicating Officers and their territorial jurisdiction by the Ministry of Finance on August 11, 1990. The mechanism of the Foreign Exchange Adjudication aims to provide transparent judgments on the complaints and induce the accused persons to bring in the valuable foreign exchange which is their legal and moral obligation.

In 2001 the powers for appointment of Adjudication Officer, earlier vested in the Finance Division, was also reposed in SBP, pursuant to the modifications in the SBP Act 1956 through which the BSC was set as a subsidiary of SBP. This has enabled each Adjudicating Officer to commence adjudicating process immediately upon signing of the Notification by the Governor, SBP. This has improved the system and continuity of the process. During the financial year 2004-05, notification regarding the appointment of new Adjudicating Officer at Sialkot was issued who took over charge of office in December 2004.

As on June 30, 2005 a total of 2040 complaints were outstanding as against 1782 complaints outstanding as on end June 2004. Against the end June 2005 outstanding complaints, the number of complaints outstanding at Sialkot stood at 721 followed by 492 at Karachi, 471 at Lahore and 356 at Faisalabad as compared to 729, 281, 447 and 325 complaints outstanding respectively at these Adjudicating Courts as on June 30, 2004.

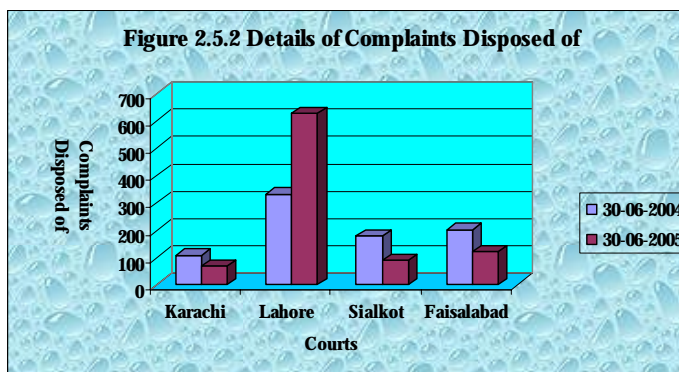
<b>Table 2.5.1 Detail of Complaints Outstanding</b>		
<b>Courts</b>	<b>Complaints Outstanding as on</b>	
	<b>30-06-2004</b>	<b>30-06-2005</b>
Karachi	281	492
Lahore	447	471
Sialkot	729	721
Faisalabad	325	356
<b>Total</b>	<b>1782</b>	<b>2040</b>



During 2004-05 a total of 1106 complaints were lodged by different Units of Foreign Exchange Operations Department (FEOD) of BSC as against 747 complaints received during 2003-04 showing a net increase of 48 percent. The Adjudicating Court at Lahore received 651 complaints, or about 59 percent of the total complaints received, followed by 256 or 23 percent complaints lodged to Karachi Courts, and 152 complaints or 14 percent lodged to Faisalabad Court. Sialkot Court received only 47 complaints during the year as against 71 complaints during last year showing a reduction of about 33 percent in the receipt of the complaints from concerned units of FEOD.

The Foreign Exchange Adjudication Department (FEAD) disposed of a total 907 complaints during 2004-05 as against 818 complaints disposed of during 2003-04, including complaints disposed of on exparte basis. The Adjudicating Court, Lahore disposed of 627 complaints (69 percent of total disposal) during 2004-05 as against 330 complaints disposed of during last year. The Adjudicating Courts at Faisalabad, Sialkot and Karachi disposed of 121, 90 and 69 complaints respectively during 2004-05 as against 203, 178 and 107 complaints disposed of by the same courts during 2003-04.

<b>Table 2.5.2 Details of Complaints Disposed of</b>		
<b>Courts</b>	<b>Disposal made during the year ended</b>	
	<b>30-06-2004</b>	<b>30-06-2005</b>
Karachi	107	69
Lahore	330	627
Sialkot	178	90
Faisalabad	203	121
<b>Total</b>	<b>818</b>	<b>907</b>



The department continued to endeavor to persuade the exporters to realize export proceeds, and managed to ensure realization of an amount equivalent to US\$6.4 million during 2004-05 as against US\$7.62 million realized during 2003-04 showing a net reduction of US\$1.22 million or 16.01 percent. Out of total realization of US\$6.4 million during the year under review, the Lahore Adjudicating Court ensure realization of US\$2.8 million (44percent of the total), followed by Faisalabad Courts US\$1.44 million, Karachi and Sialkot Courts, who managed realization of about US\$1.07 million.

According to the powers vested under section 23-B of Foreign Exchange Regulations Act, 1947 FEAD can impose penalties on accused nominated by its FEOD in their complaints for violation of the requirement of Section 12(1) of the said Act. The FEAD had imposed a total penalty of Rs.7,526 million up to June 30, 2004. As per the law this penalty is recoverable as arrears of land revenue, by

the District Revenue Officers to whom a recovery certificate for penalty imposed by the Adjudicating Officer, in respect of each complaint has since been issued. However as on June 30, 2005 an amount of Rs.20.38 million has been recovered from the accused as against the recovery amounting to Rs.13.31 million made on June 30, 2004. This included the amount of penalty, which the Court managed to recover directly. Thus during 2004-05 the total amount of penalties recovered (including those recovered by the Courts) stood at Rs.7.07 million. Non recovery of penalties imposed by the Court through the use of Governmental functionaries viz; District Recovery Officer, even as an arrear of land revenue, suggests that the FEAD of BSC needs to revamp this activity for which recommendations are being prepared separately.

The department comprises of five Adjudication Courts, functioning at Karachi (Two) and one each at Lahore, Faisalabad and Sialkot offices. The Director of the department, besides heading one court at FEAD of BSC has visited field courts on five different occasions during the year under review in order to provide guidance to the Adjudicating Officers.