

### **13. Investment Abroad by Residents.**

The residents of Pakistan including companies are allowed to make equity-based investment in entities abroad, on repatriable basis, subject to the following terms and conditions and in the manner stipulated below:

#### **I. Basic Terms and Conditions:**

Following basic terms and conditions will apply to all categories of equity investment abroad transactions (Category A-1 and A2 to D), as mentioned in the succeeding paragraph i.e. Para 13(II) *ibid*:

1. Equity investment abroad is allowed only for those countries that allow repatriation of profits, dividends and capital. However, equity investment in India, shall be subject to prior approval of SBP.
2. The funds proposed for investment should be legitimate and tax paid, the investor should be financially sound, have a clean record of loan repayments, and be on the active tax payer list.

#### **II. Category Specific Framework for Equity Investment Abroad:**

Following regulatory framework for equity investment abroad transactions for Category “A-1 and A-2” to “D”, as mentioned in the succeeding paragraphs, shall be followed by Authorized Dealers or Designated Authorized Dealers, as the case may be, while processing the transactions:

##### **A1. Establishment of Subsidiary/Branch Office Abroad by Companies Operating in the IT Sector:**

1. In order to facilitate the companies operating in IT sector in increasing exports by expanding their businesses offshore, Authorized Dealers are granted general permission to allow the following equity investment abroad transactions:

- i. Establishment/acquisition of subsidiary(ies) and additional capital injection in subsidiary(ies)/ acquisition of an interest in an entity.
- ii. Establishment/acquisition of marketing/ liaison/ representative office abroad and remittance of their annual budgeted operational expenses.

2. The above transactions could be undertaken as per the following options:

a. **Equity Investment Abroad from Exporter’s Special Foreign Currency Accounts:**

Authorized Dealers may allow remittance to the extent of funds available in Exporter’s Special Foreign Currency Accounts (ESFCAs) maintained in terms of applicable Foreign Exchange Regulations, without following the procedure of designation mentioned in Para 13(IV) below.

b. **Equity Investment Abroad from Funds Raised on Account of Investment from Abroad:**

Authorized Dealers may allow remittance, on account of equity investment abroad, to the extent of funds available in Special Foreign Currency Accounts (SFCAs), pertaining to equity raised from abroad, maintained in terms of Para 9(ii), Chapter 6 of Foreign Exchange Manual, without following the procedure of designation mentioned in Para 13(IV) below.

c. **Equity Investment Abroad by IT Companies Not yet in the Exports Business or IT Companies not having sufficient balances in their ESFCAs or SFCAs:**

Authorized Dealers may allow remittance to the extent of average net profit earned by an IT company during last three financial years or USD 100,000, whichever is higher for equity investment abroad transactions, after obtaining prior designation as mentioned in Para 13(IV)

below. The average net profit in this respect will be calculated from audited financials of the company.

**3. Terms and Conditions for Allowing Investments under 2(a), (b) and (c):**

- i. At any point in time, investment abroad of the applicant should not exceed 80% of its equity (after adjusting for investments in subsidiaries/ associates, goodwill, Deferred Tax Assets, receivables from related entities etc.) in case of a non-listed company and enterprise value for a listed company.
- ii. In case the company intends to establish/ acquire more than one entity/ marketing/ liaison/ representative office abroad in a specific jurisdiction, it will provide sufficient justification to the satisfaction of Authorized Dealer.
- iii. The threshold of up to USD 30,000 shall be observed for allowing annual budgeted operational expenses of a marketing/ liaison/ representative office (cost centers) from second year onward (from the date of investment). Further, an annual increase of up to 10% may be allowed in budgeted operational expenses in the subsequent years subject to valid justification of increase in expenses by the applicant. However, if export oriented companies operating in IT sector require remitting annual budgeted operating expenses beyond the thresholds defined above, Authorized Dealer or designated Authorized Dealer may allow such remittance after analyzing the documents/information mentioned in Para 23(i), Chapter 14 of Foreign Exchange Manual.
- iv. The business activity of the firm or company in which investment is desired to be made should be of similar nature as that in which the applicant is already engaged in Pakistan. Proposal for investment abroad in the extended line of business or vertical business integration will be considered as similar line of business.
- v. In case of acquisition of subsidiary abroad or acquisition of an interest in an entity abroad, the Authorized Dealer or designated Authorized dealer, as the case may be, shall allow the transaction after satisfying itself with respect to valuation of the company being acquired. In case the target company is unlisted, and the amount of investment is above USD 1 million, the Authorized Dealer or designated Authorized Dealer, as the case may be, may allow the transaction after satisfying itself through a valuation report from an accredited business valuation firm of the country in which investment is to be made.
- vi. While assessing any new request for establishment/acquisition of subsidiary/acquisition of an interest in an entity or marketing/ liaison/ representative office abroad or additional capital injection in an existing subsidiary, due weightage shall be given to the performance of previous investments abroad, in terms of profit repatriation, and increase in exports, as well as the future outlook.
- vii. Authorized Dealer or designated Authorized Dealer may also open standby letter(s) of credit to facilitate the offshore entity of the applicant for raising funds from offshore jurisdiction, within the parameters/limits defined in 13(II)(A1)(2) (a), (b) & (c) above. The stand by letter(s) of credit facility for cases under 2(a) and 2(b) should be secured against lien on ESFCAs or SFCAs.
- viii. Authorized Dealer or designated Authorized Dealer allowing remittances under the above provisions or establishing SBLCs shall be required to submit requisite information to SBP on appendix V-150, within three working days of the transaction.

**A2. Establishment of subsidiary/branch office abroad by export oriented companies (other than companies in the IT sector) for promoting exports:**

- a. In order to facilitate above mentioned companies incorporated in Pakistan, in increasing exports by expanding their businesses offshore, Authorized Dealers are granted general permission to allow the following equity investment abroad transactions:
  - i Establishment/acquisition of subsidiary(ies) and additional capital injection in subsidiary(ies).

- ii. Establishment/acquisition of marketing/ liaison/ representative office(s) abroad and remittance of their annual budgeted operational expenses.
- b. However, this general permission is subject to the following terms and conditions:
- i. Authorized Dealers may allow remittance to the extent of funds available in Exporter's Special Foreign Currency Accounts (ESFCAs) maintained in terms of applicable Foreign Exchange Regulations, without following the procedure of designation mentioned in Para 13(IV) below.
  - ii. Where sufficient funds are not available in ESFCAs and remittance is to be allowed either partially or wholly from the interbank, the applicants/Authorized Dealers shall follow the procedure of prior designation, as mentioned in Par 13(IV) below, before processing any transaction. Further, the total amount of remittance during a calendar year, from interbank market, should not exceed the 10% of average annual export earnings of last three calendar years of the applicant, or USD 100,000, whichever is higher.
  - iii. At any point in time, investment abroad of the applicant should not exceed 80% of its equity (after adjusting for investments in subsidiaries/ associates, goodwill, Deferred Tax Assets, receivables from related entities etc.).
  - iv. The threshold of up to USD 30,000 shall be observed for allowing annual budgeted operational expenses of a marketing/ liaison/ representative office (cost centers) from second year onward (from the date of investment). Further, an annual increase of up to 10% may be allowed in budgeted operational expenses in the subsequent years subject to valid justification of increase in expenses by the applicant. However, if export oriented companies require remitting annual budgeted operating expenses beyond the thresholds defined above, Authorized Dealer or designated Authorized Dealer may allow such remittance after analyzing the documents/information mentioned in Para 23(i), Chapter 14 of Foreign Exchange Manual.
  - v. Investment shall be carried out by the exporter by first utilizing foreign currency funds available to the credit of exporter's special foreign currency accounts maintained in terms of applicable Foreign Exchange Regulations. However, if the balance available in its exporter's special foreign currency accounts is not sufficient, remittance of balance amount can be allowed from interbank market.
  - vi. The export overdue of intending investor shall not be more than 1% of its exports, during the last twelve months.
  - vii. One entity per jurisdiction shall be allowed for establishment/ acquisition of subsidiary/ marketing/ liaison/ representative office abroad.
  - viii. The Authorized Dealer or designated Authorized Dealer shall ensure the following through assessment of relevant information/documents submitted by the applicant, before allowing the transaction under this general permission:
    - a. In case applicants exports are not sufficient and it utilizes the limit of USD 100,000/- as per Para 13(II)(A2)(b)(ii) above, it shall be required to submit to the designated Authorized Dealer the details of products to be exported and an undertaking to the effect that the proposed investment has the potential to increase the exports of Pakistan.
    - b. The business activity of the company in which investment is desired to be made, should be of similar nature as that in which the applicant is already engaged in Pakistan. Proposal for investment abroad in the extended line of business or vertical business integration will be considered as similar line of business.
    - c. In case of acquisition of subsidiary abroad, the Authorized Dealer or designated Authorized Dealer, as the case may be, shall allow the transaction after satisfying itself with respect to valuation of the company being acquired. In case the target company is unlisted, and the amount of investment is above USD 1 million, the Authorized

Dealer or designated Authorized Dealer, as the case may be, may allow the transaction after satisfying itself through a valuation report from an accredited business valuation firm of the country in which investment is to be made.

- d. While assessing any new request for establishment/acquisition of subsidiary or marketing/ liaison/ representative office abroad or additional capital injection in an existing subsidiary, due weightage shall be given to the performance of previous investments abroad, if any, in terms of profit repatriation and increase in exports as well as the future outlook.
- ix. Authorized Dealer or designated Authorized Dealer may also open standby letter(s) of credit to facilitate the offshore entity of the applicant for raising funds from offshore jurisdiction, within the parameters/limits defined in i & ii above.
- x. Authorized Dealer or designated Authorized Dealer allowing remittance for equity investment abroad or establishing SBLC against lien on ESFCAs shall be required to submit requisite information to SBP on Appendix V-150 within three working days of allowing the remittance.

**B. Establishment of Holding Company (HoldCo) abroad by residents for raising capital from abroad:**

- a. In order to facilitate the resident companies (hereinafter referred as Operating Company or "OpCo"), having innovative and/or scalable businesses with a potential for high growth, to raise capital from abroad, following general permissions are granted:
  - i. OpCo is allowed to incorporate a holding company (hereinafter referred as "HoldCo") abroad. For this purpose, designated Authorized Dealers are allowed to remit the initial incorporation expenses, on actual basis but not exceeding USD 10,000 or equivalent in other currencies, subject to condition that the applicant company is eligible as per terms and conditions.
  - ii. After incorporation of the HoldCo abroad, the existing shareholders (individuals/ companies/ firms) of OpCo ("Founders") are once allowed to swap their shares, of equal value, to mirror the shareholding of OpCo in HoldCo, within 30 days, by acquiring shares of HoldCo against transfer of their shareholding in OpCo to the nonresident HoldCo on repatriation basis. However, no remittance in this regard shall be allowed from Pakistan.
  - iii. Subsequently, resident companies and Founders are allowed to acquire the shares issued by HoldCo against payment of funds to OpCo locally in PKR. Consequently, the OpCo can issue shares of equal value in favor of non-resident HoldCo, on repatriation basis.
- b. These general permissions are subject to following terms and conditions:
  1. The company shall be eligible for incorporation of holding company abroad under this general permission, provided that:
    - i. The company is incorporated as a private limited/public unlisted company under the Companies Act, 2017 (erstwhile Companies Ordinance 1984) for not more than 7 years, provided that such entity is not formed by splitting up, or reconstruction of a business already in existence.
    - ii. The Company has annual revenue below PKR 2 billion since its incorporation.
    - iii. The company has equity (including retained earnings) below PKR 300 million as per latest audited financials.
  2. HoldCo shall repatriate the funds, raised from abroad, through equity or borrowing, to Pakistan, as equity based investment in OpCo, in following manner:
    - i. At least 80% of the funds raised from abroad on annual basis until USD 1 million (net of dividend remitted by OpCo) is remitted to Pakistan.

- ii. Subsequently, at least 50% of funds raised from abroad on annual basis until USD10 million (net of dividend remitted by OpCo) is remitted to Pakistan on cumulative basis.
3. The OpCo can issue shares in favor of HoldCo, against the amount received from abroad, on repatriation basis in terms of provisions of para 6 and 7 of Chapter 20 of Foreign Exchange Manual. The OpCo shall report to SBP within 30 days of issuance of shares through its designated Authorized Dealer, along with details of funds raised by HoldCo.
4. HoldCo shall remit the dividends to Pakistan against shares acquired by resident companies and Founders.
5. Designated Authorized Dealer shall arrange to ensure the compliance of all terms and conditions.

### **C. Investment abroad by resident companies for expansion of business:**

The resident Pakistani companies are allowed to make equity based investment (other than portfolio investment) in entities abroad on repatriable basis, with prior permission of State Bank of Pakistan and subject to the following terms and conditions:

- i. Only companies incorporated in Pakistan including foreign controlled companies are allowed investment under this category.
- ii. The business activity of the company, firm, joint venture in which investment is desired to be made should ordinarily be of the same nature as that in which the investor is already engaged in Pakistan, or in which the investor has the potential to acquire sufficient expertise from the market for running the business. Proposal for investment abroad in the extended line of business or vertical business integration shall also be considered as similar line of business.
- iii. The proposal should be economically viable as evidenced from a feasibility report. It should have the potential for future earnings of foreign exchange coupled with other advantages to the country such as employment opportunities for Pakistani nationals and improvement in national human resources.
- iv. Funding for the proposed investment abroad shall be allowed from the foreign currency funds available to the credit of special foreign currency accounts maintained by the applicant in terms of applicable Foreign Exchange Regulations. However, in case the applicant does not have any such account or the balance available in its special foreign currency accounts is not sufficient, remittance can be allowed from interbank market.
- v. The State Bank under the aforesaid guideline would also deal with the proposals emanating from the Public Sector Organizations providing financial services whereas the concerned ministry would deal with the investment proposals from all other public sector organizations.

### **D. Investment abroad by Resident Individuals:**

#### **1. Small Investment by Individuals in Listed companies abroad:**

General permission is granted to Designated Authorized Dealers to effect remittance on behalf of resident individuals for investments in shares of listed companies abroad, subject to following terms and conditions:

- i. Designated Authorized Dealer is allowed to remit a maximum amount of USD 25,000 or equivalent during a calendar year, under this general permission, on behalf of a resident individual.
- ii. The maximum shareholding by an individual, in a single investee company, under this general permission, shall not exceed 1% of shares of the investee company at any time.

#### **2. Employee Stock Option Plans**

General Permission is granted to Designated Authorized Dealers to effect remittance on behalf of resident employees of subsidiaries of foreign companies in Pakistan to participate in their share option plans, subject to following terms and conditions:

- i. Subsidiaries of foreign companies in Pakistan, shall approach to their designated Authorized Dealer with complete share option plans.
- ii. Designated Authorized Dealer is allowed to remit a maximum amount of USD 50,000 or equivalent during a calendar year, under this general permission, on behalf of a resident individual.
- iii. The maximum stake by an individual, in a single investee company, under this general permission, shall not exceed 3% of shares of the investee company at any time.

### **3. Sweat Equity**

General permission is granted to resident individuals to acquire the shares of companies abroad issued to them as sweat equity against their efforts and services, without any monetary consideration. This general permission is subject to the following terms and conditions:

- i. The maximum shareholding, under this general permission, shall not exceed 20% of shares of the investee company at any time.
- ii. The investor could acquire shares under this general permission against its efforts and services related to the field where the investor has expertise.
- iii. The investor shall submit the agreement, confirming this arrangement, to SBP through its designated Authorized Dealer while reporting this investment, along with its detailed profile showing his/her field of expertise with documentary evidences.

### **III. Post investment requirements:**

After making investment, in terms of these regulations, the investor is required to:

- i. Submit the documentary evidences related to establishment/ acquisition of subsidiary/ branch office/shares abroad, within one month of making the investment, through Authorized Dealer or designated Authorized Dealer.
- ii. Make a return to State Bank on the prescribed form V-100 through their Authorized Dealer or Designated Authorized Dealer within one month of making the investment;
- iii. Each entity who invested abroad under this policy shall submit audited financials of the investee company to the Authorized Dealer or designated Authorized Dealer on annual basis.
- iv. Repatriate the dividend/disinvestments proceeds (including capital gains) to Pakistan through normal banking channels. The amounts so received would be converted to local currency by the bank concerned and a Proceeds Realization Certificate in original evidencing the same shall be filed by the owner with the State Bank through its Authorized Dealer or designated Authorized Dealer. Such amounts shall not be allowed for credit to a Foreign Currency Account or for purchase of Pakistani securities on repatriable basis.

### **IV. Designation and application processing:**

#### **1. Designation of Authorized Dealer:**

- i. All the Investments under the general permission granted for categories of investment abroad mentioned at Para 13(II) A1(2)(c), A2(b)(ii), B & D above, shall be routed through only one branch of an Authorized Dealer to be designated by the applicant. For this purpose, request for designation shall be submitted by the applicant through the Authorized Dealer, intended to be designated, to the Exchange Policy Department of State Bank of Pakistan, for acknowledgement. The request for designation of the branch shall be routed through the Head Office of the Authorized Dealer, where record of all such designations shall be maintained.
- ii. The Authorized Dealer at its relevant branch so designated by the applicant shall be liable to ensure compliance of terms and condition stipulated for each category of investment abroad and maintain complete party wise record of transactions processed by it. The Authorized Dealer shall also maintain at the designated branch the complete record of repatriation of dividend/disinvestment proceeds from investments abroad by its each customer.

iii. In case applicant desires to change the designated bank/branch, it shall submit an application through the Head Office of bank/branch desired to be designated for the acknowledgment of Exchange Policy Department along with the following:

- a) NOC from previous designated bank/branch regarding change of designation. The previous designated Authorized Dealer shall be required to issue the NOC and share the record related to investment abroad transactions of the applicant with the new Authorized Dealer, within three working days from the date of request received from the new Authorized Dealer.
- b) Confirmation from bank/branch to be designated regarding acquisition of complete record, pertaining to previous investment abroad transactions, from bank/branch designated previously.

2. **Processing of application by Authorized Dealer:** The detailed applications along with audited accounts, particulars of directors of the investor company (not required in case of individuals), name and address of the foreign company/firm in which investment is desired to be made, its line of business and particulars of its directors/partners, shall be forwarded to the Authorized Dealer. The applications with respect to proposals of investment abroad pertaining to Para 13(II) A1, A2, B & D above, shall be processed by the Authorized Dealers or designated Authorized Dealer, as the case may be. In case of any exemption/waiver is required, the application will be forwarded by the Authorized Dealer or designated Authorized Dealer, as the case may be, to Exchange Policy Department, State Bank of Pakistan as per procedure detailed below. With respect to proposals of investment abroad pertaining to Para 13(II) C above, applications shall be forwarded by the Authorized Dealer to State Bank of Pakistan as per procedure detailed below.

3. **Processing of application by State Bank of Pakistan:** The detailed applications with respect to Para 13(II) C or any exemption/waiver from Para 13(II) A1, A2, B & D shall be forwarded by Authorized Dealers or designated Authorized Dealer, as the case may be, to Director, Exchange Policy Department, State Bank of Pakistan, Karachi, along with its review of the application (against applicable terms and conditions) and specific recommendations. Any application submitted to State Bank without proper review and specific recommendation of the Authorized Dealer or designated Authorized Dealer, would not be entertained

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Investment Abroad by Export Oriented Companies

- i. Name of Bank .....
- ii. Name of Branch .....
- iii. Full name and address of Investor .....
- iv. NTN of Investor .....
- v. Names of Sponsors of the Investor .....
- vi. CNIC Numbers of Sponsors .....
- vii. Type of Investment i.e. ....  
Subsidiary/Liaison/Marketing/Branch  
office, etc. ....
- viii. Sector of the Investment .....
- ix. Country of the Investment .....
- x. Currency .....
- xi. Amount of Investment .....
- Allowed .....
- xii. Equivalent USD .....
- xiii. Currency .....
- Amount of Operating expenses  
allowed to be remitted .....
- Equivalent USD .....
- Date of Remittance .....
- xiv. Name of Investee Entity (if  
applicable) .....
- xv. Address of Investee Entity (if  
applicable) .....
- xvi. Valuation of Investee Entity (if  
applicable) .....
- Type of Guarantee/SBLC (if  
applicable) .....
- Currency .....
- Amount of Guarantee/SBLC .....
- Beneficiary of Guarantee .....
- Expiry Date of Guarantee .....
- Date of Reporting .....
- Remarks/Comments .....

We undertake that we have thoroughly reviewed the investment proposal in line with the requirement of Para 13(I) and Para 13(II)(A1) or (A2) [as the case may be] of Chapter 20 of Foreign Exchange Manual and found it to be in order. Further, we hold ourselves liable for pecuniary or administrative action by SBP if any discrepancy is observed subsequently in the above transaction.

Unit Head-Equity Investment Abroad

Group Head-Compliance