

CHAPTER 19

LOANS, OVERDRAFTS & GUARANTEES

Contents

1. Regulations governing Loans 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.
3. Borrowings by individual Non-Resident Pakistanis and Resident Foreign Nationals.
4. Lending/Borrowing by Non-Residents in Pakistan.
5. Loans and Overdrafts against Guarantees of Non-Residents or against Collateral held outside Pakistan.
6. Loans and Overdrafts by Authorized Dealers in Foreign Currency.

Part-B

Private Sector Borrowings from Abroad (PSBA)

7. Private Sector Borrowings from Abroad.

Part-C

Foreign Currency Trade Financing from Abroad (FTFA)

8. Foreign Currency Trade Financing from Abroad.

Part-D

Financial Sector Borrowings from Abroad (FSBA)

9. Financial Sector Borrowings from Abroad.

Part-E

Guarantees

10. Guarantees on behalf of Residents of Pakistan in favor of Non-Residents.
11. Guarantees on behalf of Non-Residents in favor of Residents of Pakistan.

12. Performance/Bid Bond Guarantee.
13. Remittance under Guarantees or Performance Bonds and their Reporting to the State Bank.
14. Guarantees which may be given without prior approval of the State Bank.
15. Guarantees and Collaterals in favor of Overseas Bank Branches and Correspondents.
16. Guarantees in favor of Government Departments/Ministries/Public Sector Entities (PSEs).
17. Renewal of Loans & Overdrafts.

Part-F
Minimum requirements for Loan Registration

18. Procedure to Register the Loan.

Part G
Reporting Mechanism

19. Reporting Requirements.
20. Subsequent Amendments (if any) in the underlying Loan Agreement.
21. Regulatory Action on account of Non-Compliance of Rules and Regulations.

LOANS, OVERDRAFTS & GUARANTEES

1. Regulations governing Loans and Guarantees.

Extension of loans, overdrafts and credit facilities to companies (other than Banking, Development Finance Institutions 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 favor of non-residents or on behalf of non-residents in favor 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 Act, 2017 are entitled to borrow from local sources in PKR for any purpose except for purchase of shares (acquisition, financing, merger financing, amalgamation financing and/or purchase of minority interest) 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 Authorized Dealer's and borrowing company's record.

3. Borrowings by individual Non-Resident Pakistanis and Resident Foreign Nationals.¹

The Authorized Dealers have general permission to provide loan to individual non-resident Pakistanis and non-resident Pakistan Origin Card (POC) holders in local currency in Pakistan, subject to observance of the relevant Prudential Regulations and compliance of 'AML/CFT' requirements. The purpose of borrowing must be clear, legitimate and duly documented. However, any such lending by the Authorized Dealers shall be subject to the following conditions:

- i. The loan shall be liquidated by the borrowers through remittances from abroad in foreign exchange through normal banking channel or by debit to their repatriable

¹ EPD Circular Letter No. 12 dated August 27, 2021

PKR and foreign currency accounts which must be fed through foreign remittances.

- ii. Sale proceeds of property, moveable or immovable, created from such lending shall not be eligible for repatriation, unless otherwise allowed by SBP through general or specific permission.

Further, Authorized Dealers may also grant rupee loans to resident individual foreign nationals, except for purchasing immovable property and the purposes either restricted by the State Bank or any other prevalent law.

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 Authorized 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 (PSBA)

7. Private Sector Borrowings from Abroad.

The term '(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, intercompany loans, issuance of foreign currency bonds, structured loan facilities and FCY financing under Islamic arrangement subject to the instructions specified below for each category.

i) Common terms and conditions of PSBA.

(a) Eligible Borrowers.

The companies registered under Companies Act, 2017 and the Independent Power Producers (IPPs), except the financial intermediaries (such as banks, financial institutions, Development Finance Institutions, housing finance companies, non-banking finance companies, microfinance banks/institutions and Payment System Operators, Payment System Providers), 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.

(b) 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)’.

(c) 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 for the loans registered with the Authorized Dealer.

(d) PSBA Registration.

Authorized Dealer will register all FCY loans under this Part, after ensuring that the terms and conditions of the underlying loan agreement comply with the relevant regulations of the category against which the loan is being registered. The responsibilities of Authorized Dealers, conditions precedent and list of minimum required documents to register loan have been laid down in Part F of this chapter.

(e) 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 shall 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.

(f) 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.

(g) 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

ii) 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.

(a) 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:

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

(b) 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.

(c) Other Terms & Conditions.

aa) 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.

bb) The amount of loan borrowed from eligible lenders can be credited in 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, Chapter 6 will remain available to IPPs.

iii). 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 one (01) month

and one (1) year. However, the subject loan can be rolled over for a minimum period of one (01) month.

(a) 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:

Maturity Period	Borrowing Cost Ceiling excluding relevant benchmark rate
One (01) Month to One (01) Year	200 basis points

(b) Terms applicable to foreign contractors and foreign companies operating in branch mode.

aa) The branches of foreign companies working in Pakistan with the permission of BOI can only borrow interest free loans from their sponsors/parents.

bb) 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.

(c) Other Terms & Conditions.

The amount of loan borrowed under this category cannot be credited in a foreign currency account.

iv) 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.

(a) 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:

Maturity Period	Borrowing Cost Ceiling excluding relevant benchmark rate
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.

v) 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.

vi) 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.

vii) PSBA mobilized as Convertible Debt.²

A company may raise funds from abroad in the form of convertible debt i.e. the loan with the option to be converted into equity shares of the borrowing company, subject to following terms and conditions:

- (a) The borrowing 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.
- (b) The borrowing company has annual revenue below PKR 2 billion since its incorporation.
- (c) The borrowing company has equity (including retained earnings) below PKR 300 million as per latest audited financials.
- (d) The requirement of long-term credit rating (as defined at para 7(i)(a)) shall not be applicable.
- (e) In addition to the eligible lenders (as defined at para 7(i)(b)), funds can be raised from all those investors which are eligible for issuance of shares in terms of Para 6 of Chapter 20 of Foreign Exchange Manual.
- (f) The maturity of such loans shall range from one (1) year to five (5) years. The loans may be rolled-over subject to the condition that its total tenor will not exceed 5 years, in any case.
- (g) The all-in-cost ceiling is given as under:

Maturity Period	Borrowing Cost Ceiling excluding relevant benchmark rate
One (01) Year to three (03) Years	250 bps
Above three (03) Years, up to five (05) Years	350 bps

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.

² FE Circular No. 04 dated May 26, 2021

- (h) The funds borrowed under this category can be credited in a foreign currency account opened and maintained in terms of Para 9(ii), Chapter 6 of the Foreign Exchange Manual.
- (i) The outstanding loan amount, including accrued profit/mark-up, can be converted in to equity of the borrowing company on or before the maturity of the loan. The borrowing company may issue shares in favor of lender, in accordance with para 6 and 7 of Chapter 20 of Foreign Exchange Manual. However, the shares cannot be issued below the latest break-up value as determined by the external auditors included in the State Bank's approved list of Auditors.
- (j) The rupee liability of the loan (including accrued profit/mark-up) shall be determined by converting the FCY loan amount, outstanding as per last month-end or quarter-end (in case where last month-end figures are not available) financial statement, in to PKR by using the prevalent mark-to-market exchange rate (mid-rate) announced by State Bank of Pakistan.

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

8. Foreign Currency Trade Financing from Abroad.

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.

i) Common terms and conditions of FTFA.

(a) Eligible Borrowers.

The companies registered under Companies Act, 2017 and/or members of chambers of commerce, except financial intermediaries (such as banks, financial institutions, Development Finance Institutions, housing finance companies, non-banking finance companies, microfinance banks/institutions and Payment System Operators, Payment System Providers) 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.

(b) 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)’.

(c) Registration of FTFA.

Authorized Dealer will register all FCY loans under this Part, after ensuring that the terms and conditions of the underlying loan agreement comply with the relevant regulations of the category against which the loan is being registered. The responsibilities of Authorized Dealers, conditions precedent and list of minimum required documents to register loan have been laid down in Part F of this chapter.

(d) Waivers/Exceptions related to FTFA.

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

ii). 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.

(a) 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:

Maturity Period	Borrowing Cost Ceiling excluding relevant benchmark rate
Two (2) years to five (5) years.	350 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.

iii). 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.

(a) 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:

Maturity Period	Borrowing Cost Ceiling excluding relevant Benchmark rate
Up to 240 days	200 basis points

(b) Other Terms & Conditions.

aa) 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.

bb) 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.

cc) The foreign currency loan will be repaid, along with interest, out of the related export proceeds.

dd) 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)

9. Financial Sector Borrowings from Abroad.

The term '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.

i) Common terms and conditions of FSBA.

(a) Eligible Borrowers.

The FSBA's can be raised from the eligible lenders by the banks, financial institutions, Development Finance Institutions, housing finance companies, non-banking finance companies, microfinance banks/institutions, Payment System Operators, Payment System Providers 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) operating in financial sector of Pakistan.

(b) 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)'.

(c) Registration of FSBA.

Authorized Dealer will register all FCY loans, except overdraft facilities, under this Part, after ensuring that the terms and conditions of the underlying loan agreement comply with the relevant regulations of the category against which the loan is being registered. The responsibilities of Authorized Dealers, conditions precedent and list of minimum required documents to register loan has been laid down in Part F of this chapter.

(d) Pre-Payment.

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

ii) 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.

(a) 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:

Maturity Period	Borrowing Cost Ceiling excluding relevant benchmark rate
Up to seven (7) days	100 basis points

(b) Other Terms & Conditions.

aa) 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.

bb) 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.

iii) 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 FSBA under this category shall be from one (01) month to one (1) year. However, the subject loan can be rolled over for a minimum period of one (01) month.

(a) 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:

Maturity Period	Borrowing Cost Ceiling excluding relevant benchmark rate
One (01) Month to One (01) Year	350 basis points

(b) Threshold.

Under this category of FSBA, the eligible borrower can borrow foreign currency up to 100% of its unimpaired capital, from an eligible lender, as per its latest audited financial statements subject to compliance of other applicable rules and regulations.

(c) Other Terms & Conditions.

aa) 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.

bb) Borrowing Authorized Dealer/bank will be allowed to deploy the loan proceeds locally in interbank market including financing of trade transactions.

iv) 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.

iv-A) Foreign Exchange Future Flow Transactions Framework for Long Term Fund-Raising by Authorized Dealers.³

1. Authorized Dealers (AD) are allowed to raise long-term funds from a Special Purpose Vehicle (SPV) outside Pakistan, by selling their Diversified Payment Rights to it, under Foreign Exchange Future Flow Transactions(FFTs) Framework, with the prior approval of State Bank of Pakistan (SBP) as mentioned in sub Para 7 below.

2. For the purpose of this para:

a) **“Diversified Payment Rights”** (or **“DPRs”**) mean the right, title and interest (but none of the obligations) of an AD in, to and under, and all monetary claims of an AD against the sender/ payer of, Payment Orders denominated in one or more foreign

³ EPD Circular Letter No. 05 dated July 05, 2024

currencies received (or to be received) by such AD (including its right to receive and/or retain for itself all payments made in connection with such Payment Orders).

b) **“Payment Order”** has the same meaning as provided in Para 21 (i)(i), Chapter 10 (Inward and Outward Remittances) of the Foreign Exchange Manual (FEM).

3. ADs, interested in participating in such a transaction, or a program structure, consisting of multiple transactions, shall adhere to the instructions/ guidelines prescribed below:

a) The SPV setup outside Pakistan for the purpose of undertaking only the FFT-related activities shall neither be owned nor controlled by the AD or by any of its affiliates. However, the SPV may have a name that incorporates all or some of the elements of the AD’s name subject to prior approval of SBP.

b) The SPV may issue debt instruments (or raise loans or incur other debt) in the international markets and must thereafter remit 100% of the proceeds of such debt to the AD against the sale of DPRs. However, such AD’s name shall not be used in the name of any debt instruments issued (or loans or other debt incurred) by such SPV. Reasonable steps shall be taken to ensure that investors/ lenders, in such debt instruments (or loans or other debt), are aware that the obligations of the AD, to the SPV and investors/ lenders, are limited to the extent expressed in the AD’s written agreement with such SPV and investors/ lenders.

c) The AD shall ensure that there are no impediments (contractual or otherwise) that prevent the sale of the applicable DPRs to the contemplated SPV and that, if any are required, all necessary consents from each applicable obligor (Payment Order-sending bank) have been obtained. However, failure to obtain any such required consents and/ or failure to comply with any such underlying agreement, for the purposes of this framework, shall not impact the validity of the applicable sale except to the extent that the applicable underlying agreement so provides.

d) The applicable DPRs must be sold to the applicable SPV on an arms-length basis.

e) The sale of a DPR, to qualify as a “true sale” (i.e., put beyond the reach of the AD and its creditors even in a receivership, bankruptcy or similar proceedings with respect to such AD, including one administered by the SBP), must satisfy the following (and only the following) characteristics, upon which such sale will be a valid “true sale”.::

i. The sale of such DPRs must be provided for in a written agreement between such AD and the applicable SPV, which agreement may be governed by Pakistani or other law and may be in such form and language as agreed by the parties. Such agreement need not to specifically identify each applicable DPR or the identity of any related obligor(s). Such sale may provide for the applicable DPR to have been sold either perpetually or to a future sale termination date to be determined in some

manner, as agreed by the AD and the SPV (including, for example, the agreement of the AD and SPV or the payment of all of the SPV's obligations).

ii. The AD must state that it is selling to the SPV all of its rights to receive payment of the applicable DPRs.

iii. The SPV shall not have any recourse to the AD with respect to any default by the applicable obligor(s) of such DPRs except with respect to DPRs for which such AD has made an inaccurate representation and/or warranty at or before the time of its sale to the applicable SPV (or, with respect to a future funding to the AD under the applicable transaction, at or before the time of such funding).

f) If there is a prospectus or similar offering document (an "Offering Document") for such a transaction or program structure, then the applicable investors/lenders must be clearly informed in such Offering Document that the applicable FFT does not represent deposits in the AD.

g) The applicable SPV will own the sold DPRs immediately upon their generation (i.e., the AD will not have even momentary title thereto).

h) The AD may also sell/ assign related bank and/ or other collection accounts to SPV. However, the AD may (as servicer, trustee, agent or otherwise for the SPV), remain the sole or joint owner of such account without impacting the "true sale" nature of such sale/ assignment. In addition, the AD may open a new account to replace any such sold/assigned account. However, the AD may get back the control of such sold/assigned accounts upon termination of the underlying FFT.

i) Subject to the terms of the applicable DPRs, notice of the sale of a DPR need not be given to the applicable obligor(s) nor is any acknowledgment or agreement from such obligor(s) with respect thereto required; however, notice of such sale to such obligor(s), and any acknowledgment or agreement from such obligor(s) with respect thereto, may be made in such a manner as the AD and/ or the SPV determines.

j) In addition to DPRs to be generated in the future, the sale may include such DPRs existing at the time of such sale. Furthermore, such DPRs to be generated in the future need not be derived from a contract or other arrangement in effect at the time of such sale (e.g., such sale may include DPRs derived from the AD's relationships and/ or transactions that commence after the sale).

k) An SPV may be consolidated with the AD for accounting purposes to the extent applicable accounting rules so require, which consolidation will not impact the "true sale" nature of the sale of the applicable DPRs or any other elements of the applicable FFT.

4. Notwithstanding any other rule, regulation, circular, notification or similar instructions of the SBP, the collections on DPRs received by the SPV in foreign currency,

may be retained outside Pakistan to the extent required to satisfy such SPV's debt and other obligations arising as a result of the FFT with AD; provided that an amount equal to the rest of the funds (including any accrued profit) shall be received by the AD as part of the consideration for such sale.

5. Notwithstanding any other rule, regulation, circular, notification or similar instructions of the SBP, in connection with the funds raised from outside Pakistan through the SPV, under an FFT, the AD may repay to the SPV such amounts (plus interest and other customary amounts) to the extent it is not recovered by the SPV from the collection on DPRs.

6. ADs desirous of participating in such FFT transactions shall formulate policies and develop controls, and checks to effectively manage the associated risks.

7. The AD intending to enter into an FFT, shall approach the Exchange Policy Department of SBP for prior approval of the transaction or program structure based on multiple tranches. The AD shall provide the material details of the arrangement, including but not limited to the following:

- a) Details of the SPV to be used for raising debt under the FFT. The ADs are required to ensure the due diligence of the SPV before sharing the details with SBP.
- b) Details of the DPRs intended to be sold to the SPV.
- c) The initial amount contemplated to be raised, the expected cost, and the expected tenor and repayment plan of the transaction/ program;
- d) The intended use of funds to be raised from outside Pakistan.
- e) A description of the underlying agreements with the SPV and other parties to the FFT.
- f) The target investors/ lenders and a description of whether an Offering Document will be issued.
- g) Details of roles (other than the originator role) that the AD wants to assume in the FFT.
- h) Details of other fees, and expenses contemplated to be paid by the AD for the transaction/program structure.
- v) **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.

(a) 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 Relevant Benchmark Rate ⁴ + 5%.

(b) Other Terms & Conditions.

aa) 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.

bb) 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.

cc) Issuance of guarantees by sponsor/donors in favor of lenders is permitted under the loan registered with the Authorized Dealers for FSBA by Micro Finance Banks/Institutions in Pakistan.

vi) FSBA by other Financial Institutions i.e. NBFIs, DFIs, PSOs, PSPs, Leasing Companies, House Building Finance Companies and Insurance Companies.

In case, 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.

10. Guarantees on behalf of Residents of Pakistan in favor of Non-residents.

Except in cases covered in paragraph 14, prior approval 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 guarantees related to FCY

⁴ EPD Circular Letter No. 01 dated April 07, 2025

borrowing from abroad (except as may otherwise be allowed by the State Bank) or equity investment abroad will be forwarded to Director, Exchange Policy Department, State Bank of Pakistan. While, all other cases related to guarantee will be forwarded to Director, Foreign Exchange Operations Department, State Bank of Pakistan-Banking Services Corporation. These applications will be made by letter giving full particulars of the guarantee/SBLC or under-taking 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 up to 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/SBP BSC within a week.

However, restrictions imposed above shall not apply to the establishment of letters of credit or similar undertakings by the Authorized Dealers to finance imports into Pakistan in accordance with the provisions of Chapter-13.

11. Guarantees on behalf of Non-Residents in favor of Residents of Pakistan.

Prior approval is required for giving guarantees or undertakings in favor 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 14 and 15 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 Authorized Dealer to the 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 of Pakistan-Banking Services Corporation. 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 SBP-BSC within a week.

However, restrictions imposed above shall not apply to advising of export letters of credit established by non-resident banks nor to negotiation of documents thereunder.

12. 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.

13. 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 12 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 along with 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.

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

The restrictions in paragraphs 10 and 11 do not apply to guarantees given by Authorized Dealers in favor 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.

15. Guarantees and Collaterals in favor 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 for any credit facilities, guarantees the latter may give 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.

16. Guarantees in favor of Government Departments/Ministries/Public Sector Entities (PSEs).

Authorized Dealers may issue foreign currency guarantees on behalf of residents and nonresidents 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.

17. 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

Minimum Requirements for Loan Registration

18. Procedure to Register the Loan.

i) Responsibilities of Authorized Dealers.

- a) Authorized Dealers will maintain a centralized loan database of outstanding FCY loans.
- b) Authorized Dealers will ensure the compliance of KYC/AML/CFT guidelines issued by the State Bank from time to time.
- c) It will be the responsibility of Authorized Dealers to maintain the record of beneficial owners/directors of the borrowers and lenders.
- d) Authorized Dealers will be responsible to register the loan before executing any transaction for their clients.
- e) Authorized Dealers are allowed to effect all the loan related remittances such as principal, interest and other fees, as per re-payment schedule, after registering the loan except PSBA for project financing and FTFA for import loans. However, remittances of principal, interest and other fees against PSBA for project financing and FTFA for import loans, are allowed only after registration of repayment schedule with the State Bank.
- f) While registering the loan, Authorized Dealers, will ensure that the underlying 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.
- g) Authorized Dealer shall ensure to have independent assessment of each FCY loan proposal/transaction from money laundering/ terrorism financing risk and foreign exchange risk perspective by their Compliance or Risk Management department prior to registration of the loan agreement. For this purpose, Authorized Dealer shall also conduct appropriate due diligence of the proposal including particulars of lender and shall determine the ultimate beneficial ownership, in case it is not Financial Institution/International Financial Institution. Further, Authorized Dealers shall conduct annual focused Internal Audit of FCY Loan Registration function.

ii) PSBA for Project Financing.

• Documentation Requirement.

- a) Original loan/credit agreement.
- b) A list of the company's Directors along with their National identity numbers/ passport number and certified true copies of the same.
- c) Beneficial ownership of the borrower.
- d) Project report showing the details of the project including its cost (showing breakup of local and foreign component).

- e) Location of the project & a copy of Certificate of Incorporation of the company.
 - f) In the case of Buyer's Credit arranged by the foreign supplier, authenticated copy of the purchase contract.
 - g) For intercompany loans, documentary evidence of the relationship between the companies.
 - h) For exporter, documentary evidence and data of last year's exports.
- **Other conditions.**
 - i) 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 registering the loan
 - j) The interim payments during the gap between loan registration 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.
 - k) The Authorized Dealer will furnish the following documents to Exchange Policy Department, State Bank of Pakistan, Karachi for Repayment Schedule (V-87) registration:
 - aa) In case of direct disbursement, Authorized Dealer shall submit Proceed Realization Certificates.
 - bb) In case of import of plant & machinery, Authorized Dealer shall submit Exchange Entitlement Certificates issued by Foreign Exchange Operations Department, SBP-Banking Services Corporation.
 - cc) In case of import of services, Authorized Dealer shall submit External Auditor's Certificate confirming the amount of PSBA utilized for the subject payments along with the original agreement and invoices.
 - l) 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).
 - m) After that, the Authorized Dealer will affect the remittance of principal, interest and other fees and shall maintain a copy of the repayment schedule, a certificate confirming the applicable benchmark rate, a certificate confirming

payment and copy of schedule of applicable Taxes attached with the Form 'M' indicating LRN.

iii) PSBA for Working Capital/ Bridge Financing.

• **Documentation Requirement.**

- a) The original loan/credit agreement.
- b) A list of the company's Directors along with their National identity numbers/ passport number and certified true copies of the same.
- c) Beneficial ownership of the borrower.
- d) An authenticated copy of the final repayment schedule (as per Appendix V-92).

• **Other conditions.**

- e) On complete disbursement of foreign currency loan, as per the underlying loan agreement, the Authorized Dealer will maintain the Proceeds Realization Certificates (PRC)/Certificate of Deposit in original.
- f) The Authorized Dealer can affect the remittance of principal, interest and other fees, once the loan is registered. 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 shall be maintained with Authorized Dealer at all times.

iv) PSBA for Securitized Instruments/Bonds & Financing under Islamic Arrangement.

• **Documentation Requirement.**

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

v) Financial Sector Borrowings from Abroad (FSBA).

• **Documentation Requirement.**

- a) The original loan/credit agreement/swift message.
- b) A copy of the final expected repayment schedule.

- **Other Conditions.**
 - c) The Authorized Dealer will report the transaction on Appendix V-93 till maturity of the loan.
 - d) After registration of loan, Authorized Dealer can remit principal repayments and interest payments.
- vi) **Credit Lines/ Overdrafts established by Authorized Dealers with Correspondents/ Overseas Branches.**
- **Documentation Requirement.**
 - a) The original loan/credit agreement.
 - **Other Conditions.**
 - b) Authorized Dealer will subsequently report the transaction to the Statistics & Data Warehouse Department of the State Bank.
- vii) **FSBAs to be raised by Micro Finance Banks/Institutions in Pakistan.**
- **Documentation requirements**
 - a) Request letter duly signed by the CEO/CFO of the borrowing bank/ institution.
 - b) Original loan/credit agreement.
 - c) A copy of the final repayment schedule on Appendix V-92.
 - d) 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.
 - **Other Conditions.**
 - e) Upon complete disbursement of foreign currency loan in accordance with the underlying loan agreement, the Authorized Dealer will keep the Proceeds Realization Certificates, in original, on its record.
 - f) The Authorized Dealer can remit principal and interest, once the loan is registered. 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 shall be maintained with Authorized Dealer at all times.

viii) Long Term FSBAs to be raised by the Authorized Dealers.

- **Documentation Requirement.**

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

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

- **Documentation Requirements.**

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

x) Import Loan under FTFA.

- **Documentation Requirements.**

- a) Request letter duly signed by the importer.
- b) A list of the company's Directors along with their National identity numbers/passport number and certified true copies of the same.
- c) Beneficial ownership of the borrower.
- d) Loan Agreement, in original,
- e) Detail of Goods to be imported, under the subject agreement, along with the timelines involved therein.
- f) In case of Buyer's credit, the Purchase Contract, in original.

- **Other Conditions.**

- g) 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.
- h) 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.
- i) The Authorized Dealer will subsequently remit the principal, interest and other fees, if required. A copy of the repayment schedule, 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, as remittance authority shall be maintained with Authorized Dealer at all times.

xi) Export Loans under FTFA.

• **Documentation Requirements.**

- a) Request letter duly signed by the exporter.
- b) A list of the company's Directors along with their National identity numbers/ passport number and certified true copies of the same.
- c) Beneficial ownership of the borrower.
- d) Loan Agreement in original.
- e) Copy of the relevant Letter of Credit.
- f) A copy of the final repayment schedule (Appendix V-92).

• **Other Conditions.**

- g) Upon complete disbursement of foreign currency loan in accordance with the underlying loan agreement, the Authorized Dealer will keep the Proceeds Realization Certificates (PRC) in original, on its record.
- h) The Authorized Dealer will remit the principal and interest, once the loan is registered. 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 shall be maintained with Authorized Dealer at all times.

xii) Guarantees.

• **Documentation Requirements.**

- a) Authorized Dealer's letter containing full details/ comments/recommendations.
- b) Applicant's request.
- c) A list of the company's Directors along with their National identity numbers/ passport number and certified true copies of the same.
- d) Format of Bank Guarantee.
- e) Copy of Agreement.
- f) Copy of purchase order/contract, in case of advance payment guarantee.
- g) Details of claims received against guarantee at the time of request for renewal of Bank guarantee, if any.

xiii) Any other documents/information.

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

xiv) PSBA mobilized as Convertible Debt.⁵

• **Documentation Requirement:**

- a) The loan/credit agreement having specific clause(s) regarding conversion of loan into equity shares of the borrowing company.
- b) A list of the Directors of the borrowing company along with their National identity numbers/ passport number and certified true copies of the same.
- c) Beneficial ownership of the borrowing company.
- d) An authenticated copy of the final repayment schedule (as per Appendix V-92).

• **Other conditions:**

- e) On complete disbursement of foreign currency loan, as per the underlying loan agreement, the Authorized Dealer will maintain the Proceeds Realization Certificates (PRC).
- f) The Authorized Dealer can affect the remittance of principal, interest and other fees as per repayment schedule, once the loan is registered. 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 shall be maintained with Authorized Dealer at all times.
- g) In case of conversion of outstanding loan amount into equity shares of the borrowing company, the same shall be intimated to the respective authorized dealer who will intimate the changes to the Statistics & Data Warehouse Department, State Bank of Pakistan during the following month, for reporting purposes.

Part-G
Reporting Mechanism

19. Reporting Requirements.

- i. For reporting foreign private loans (FPL) data on DAP, all Authorized Dealers will be responsible to ensure that the Loan Registration Number (LRN) is obtained from Statistics & Data Warehouse Department (S&DWH) by 5th of the following month by providing information along with repayment schedule as per formats given at Appendix V-146. The subject 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.

⁵ FE Circular No. 04 dated May 26, 2021

- ii. Authorized Dealers will ensure that repayment schedules of all FCY loans are updated on the FCY loans portal at all times after obtaining the registration number.

20. Subsequent Amendments (if any) in the underlying Loan Agreement.

Authorized Dealers will ensure that any subsequent changes/amendments in the terms and conditions of the underlying Loan Agreement should comply with the relevant regulations of the category against which the loan was registered. The Authorized Dealers will also maintain record of all such changes/amendments.

21. 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.
