

FORWARD COVER

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

(2) Forward Quotations. Forward buying rates will be quoted for fixed delivery during the third, fourth, fifth and sixth months. For example 3 months forward purchase made on 28th March, 1994 can be taken up any time during 28th May, 1994 to 27th June, 1994. Forward selling rates will be quoted for optional delivery upto three, four, five and six months.

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

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

(i) Authorised Dealers may sell foreign currencies forward in cover of imports into Pakistan against imports under cash for a maximum period of six months. Such sales may be made on the basis of letters of credit or registered contracts. The sale contract may be booked at any time but not later than 3 days of receipt of the relevant import bill by the Authorised Dealers and in the case of usance bills may not provide for delivery beyond the date of maturity of the bill.

(ii) Forward cover facility will not be made available in respect of the following:-

- a. Import of crude oil and POL products.
- b. Imports by Federal or Provincial Government Department or Corporation set up by Government and Industrial undertaking in which Government hold majority interest other than TCP and those public sector undertakings which export part of their products.
- c. Sale of foreign exchange to overseas Bank's branches and correspondents to cover rupee bills negotiated by them under Letters of Credit established by Authorised Dealers in Pakistan.

(5) Forward transactions between Authorised Dealers.

Authorised Dealers may freely enter into forward transactions with each other, provided such sales / purchases are in cover of transaction entered into by them with their customers.

(6) Forward transactions with overseas branches and correspondents.

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

(7) Extension of Forward Contracts.

It would be permissible for the customers / to initially enter into transactions for the maximum period as permitted vide preceding paragraphs 3 and 4. It would be permissible to extend the contracts on roll over basis if the export proceeds have not been realized and extension in the period of realization has been granted by the State bank prior to the date of maturity of the original contracts, or import bill is not paid in accordance with the terms of Letter of Credit /registered contract. Such extensions would be made by closing out the original contract and booking of a fresh contract at the new rate.

(8) In case an exporter books forward cover but also comes to a bank for discounting of the usance bill, the bank will discount the bill at the rates published by the Committee which are based on spot rates minus the discount. The foreign currency receipts in respect of such discounted bills will not be considered as delivery against forward contract but the contract will be closed out on maturity.

(9) Rates at which Forward contracts may be closed out.

Forward contracts which are not taken up may be closed out on the date of maturity. In the case of closure of forward exchange contracts, the difference between the booked forward rate excluding the element of usance, and the T.T. clean spot rate for the counter transaction ruling on the day of the closure will be recoverable from or payable to the customer, as the case may be. The State Bank reserves the right to direct under sub-section (2) of section 4 of the Foreign Exchange Regulation Act, that all forward contracts or any particular forward contract or class of forward contracts shall be closed out at the rate ruling on the day on which they were booked or on any other day within the currency of the contract(s) at its discretion and not necessarily at the rates ruling on the day on which they are closed out.

(10) Forward sales in respect of repatriable foreign currency loans.

Authorised Dealers may sell foreign currencies forward in respect of repatriable foreign currency loans, for six months delivery. Such contacts may be extended in the manner laid down in paragraph 7.

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

[Back to Circular Page](#) / [Home Page](#)