CHAPTER IV

FORWARD EXCHANGE FACILITIES

1. General.

(i) Authorised Dealers may enter into contracts for forward 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 offers and acceptance and/or formal contracts duly signed by the exporters/importers and/or letters of credit. Originals or photocopies 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.

(ii) Forward cover may be provided even if the letter of credit has been opened through another Authorised Dealer or contract etc. has been registered with or export documents have been handled by another Authorised Dealer. Such cover would be provided on the basis of a certificate from the concerned Authorised Dealer confirming, inter-alia, that no forward cover has been provided by it against the transaction.

2. Forward Quotations.

Authorised Dealers may provide forward cover for exports, imports, foreign private loans covered under paragraph 8, Chapter XIX (on roll-over basis) and repatriable foreign currency loans mentioned in paragraph 15, Chapter XIX of the Manual (excluding loans obtained by foreign contractors and branches of foreign companies) for any duration subject to any restriction mentioned in subsequent paragraphs, in accordance with the conditions prevailing in the market. No forward transaction may, however, be made for a tenor of less than one month. Further, one month's forward transactions should be for fixed maturity. In case payment is made/received within one month, the spot selling/buying rate will be applied and the relevant contract will be closed out at the maturity date.

3. Forward purchase of foreign exchange against export of goods.

(i) In the case of export of goods from Pakistan against a firm contract, Authorised Dealers may purchase foreign currencies forward for delivery upto six 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/EPC form/letter of credit. Purchases in case of exports on consignment sale basis, may be made at any time after the shipment has taken place but the last date of delivery should not fall after six 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 realisation of sale proceeds beyond six months, the purchase contract may provide for delivery upto fifteen days after the extended date for realisation.

(ii) In the case of export of goods to be invoiced in any convertible currency other than U.S. Dollar, it is permissible to buy forward the concerned currency in terms of U. S. Dollar, if the exporter wishes to cover only such risk and to carry dollar versus rupee risk himself. The Authorised Dealers will conduct such transactions within their approved Exchange Exposure' limits. On realisation of the proceeds the equivalent U. S. Dollar amount at the booked rate will not be delivered but converted at the spot rate and the rupee equivalent will be paid to the exporter.

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

(i) Authorised Dealers may sell foreign currencies forward in cover of imports into Pakistan on cash basis under letters of credit or registered contracts. The sale contract may be booked at any time after opening of letter of credit or registration of contract. A forward sale may also be made after the receipt of an import bill drawn on usance basis, but such a sale 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 Departments or Corporations set up by Government and Industrial undertakings in which Government holds 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 sale against investment by Non-Residents.

(i) Authorised Dealers may sell foreign currencies forward to non-residents for portfolio investment made by them in rupee denominated shares and securities on repatriation basis out of funds remitted from abroad, as permitted vide Chapter XX of the Manual. The forward cover can also be provided on the date of conversion of foreign currency into rupees, pending their investment. Such sales would be made only for the amount brought in or the face value of the security, whichever is higher. No forward cover will be provided for dividend/interest/coupon income. Forward cover will also not be provided for Foreign Direct Investment. The maximum period of sales should be twelve months, which may be extended in the manner laid down in paragraph 9.

(ii) A forward sale may also be made by an Authorised Dealer other than the one maintaining the Special Convertible Rupee Account or providing custodial service for investment provided the customer gives a declaration that the investment has been made on repatriation basis and that cover has not already been obtained from any other Authorised Dealer.

6. Forward transactions between Authorised Dealers.

Authorised Dealers may freely enter into forward transactions with each other, provided their Exchange Exposure' at the end of the day remains within the prescribed limits.

7. 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.

8. Forward cover to the Investment Banks, Leasing and Modaraba Companies.

Authorised Dealers may provide forward cover to the Investment Banks, Leasing Companies and Modaraba Companies holding restricted Authorised Dealer's Licences issued by the State Bank of Pakistan, in respect of the funds mobilized by them from abroad against issuance of Certificates of Investment and surrendered to the State Bank provided they have not obtained forward cover from the State Bank.

9. Extension of forward contracts.

It would be permissible to extend the contracts on roll over basis even for less than one month if the export proceeds have not been realised and extension in the period of realisation has been granted by the Authorised Dealer/State Bank 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.

10. Discounting of usance export bills.

In case an exporter books forward cover and presents thereagainst an export bill drawn on usance basis for discounting, the Authorised Dealer may treat discounting of the usance bill as delivery against the forward contract provided such bills are presented for discounting during the option delivery period only. In all other cases the foreign currency receipts in respect of discounted bills will not be considered as delivery against forward contract and the Authorised Dealer will discount the bill at its current applicable rate and close out the contract on maturity.

11. Rates at which forward contracts may be closed out.

(i) 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, if any, and the prevailing spot rate for the counter transaction on the day of the maturity will be recoverable from or payable to the customer, as the case may be.

(ii) The State Bank reserves the right to direct under sub-section (2) of section 4 of the Foreign Exchange Regulation Act, 1947 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.

12. Cancellation of forward contracts.

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.

13. Switch over of exchange contract in cover of imports/exports.

(i) Where the foreign beneficiary of a letter of credit is changed in accordance with the instructions contained in Chapter XIII, Authorised Dealers may allow the forward foreign exchange booked in respect of the original letter of credit to be used for the new letter of credit provided the currency and the description of the commodity of the new letter of credit are the same as of the original letter of credit.

(ii) Where delivery against a forward sale made by an exporter against a particular contract or letter of credit cannot be made due to non-shipment, the exporter may give delivery out of export proceeds repatriated by him against other contract/letter of credit.

14. Forward covers against foreign currency accounts.

Persons maintaining foreign currency accounts with the Authorised Dealers in Pakistan can sell forward the balances held in their accounts to the importers in connection with import letters of credit/indents, proforma invoices, orders registered with the Authorised Dealers for imports on consignment basis. The procedure to be followed in this regard is as under:

(i) The importer and foreign currency account holder (hereinafter called the seller) will agree to the deal under intimation to the Authorised Dealer. For smooth conduct of transaction, it is necessary that the importer and seller are the customers of the same Authorised Dealer.

(ii) The seller will authorise the Authorised Dealer to mark a lien on the respective foreign currency account to the extent of the amount involved.

(iii) The Authorised Dealer will make separate arrangement with the importer for recovery at the opportune time of rupee equivalent at the forward rate agreed to between the importer and the seller.

(iv) As and when payment is required to be made for imports:

a. The Authorised Dealer will debit the foreign currency account of the seller, take delivery of the amount from State Bank of Pakistan by lifting the cover, where cover has been obtained, take the foreign currency amount in the Nostro account, report the same as inward remittance under the code meant for Home Remittance and credit rupee equivalent at the forward rate to the sellers non-convertible rupee account.

b. Simultaneously, the Authorised Dealer will lodge the documents in its books at the forward rate agreed to between the importer and seller. The rupee recoveries from the importers will be made by the Authorised Dealer as per its own arrangement.

c. The Authorised Dealer will report the import transaction in the monthly foreign exchange return in the normal way on Form I- Schedule E-2.

(v) In case the importer fails to take up the contract arranged with the seller, it will be closed out and the exchange rate differential settled on the maturity date in the same manner as other forward sale contracts are closed out e.g. in accordance with paragraph 11 of this chapter.

(vi) The provisions of paragraphs 4 & 9 of this chapter will, ipso-facto, apply to the forward contracts made in terms of this para.