

CHAPTER vi

PRIVATE FOREIGN CURRENCY ACCOUNTS

1. [Opening of Foreign Currency Accounts with Banks in Pakistan.](#)
2. [Different Schemes for Foreign Currency Accounts.](#)
3. [State Banks Forward Cover Scheme.](#)
4. [Acceptance of Deposits from foreign banks operating abroad and overseas branches.](#)
5. [Payment of subsidy on account of interest differential.](#)
6. [F.E. 25 Scheme.](#)
7. [Special Foreign Currency Accounts of Private Power Projects.](#)
8. [Special permission for Foreign Currency Accounts.](#)
9. [General permission for Maintenance of Accounts abroad by Resident Pakistanis.](#)
10. [Reporting of receipts into and payments from foreign currency accounts.](#)
11. [Reporting of local disbursements from foreign currency accounts.](#)
12. [Reporting of interest on foreign currency accounts.](#)
13. [Surrender of Foreign Exchange.](#)
14. [Payments by Foreign Nationals in Foreign Currencies.](#)
15. [Foreign Exchange received by Residents in Pakistan.](#)

1. Opening of Foreign Currency Accounts with Banks in Pakistan.

(i) Authorised Dealers may, without prior approval of the State Bank, open with them foreign currency accounts of the following: -

- a) Pakistan Nationals resident in or outside Pakistan, including those having a dual nationality.

- b) All foreign nationals, whether residing abroad or in Pakistan.
- c) Joint Account in the names of residents and non-residents.
- d) All diplomatic missions accredited to Pakistan, and their Diplomatic Officers.
- e) All International Organizations in Pakistan.
- f) Firms and companies established/incorporated and functioning in Pakistan, including those having foreign share-holdings except as outlined in sub-para (v) below.
- g) Charitable Trusts, Foundations etc. which are exempted from income tax.
- h) Branches of foreign firms and companies in Pakistan.
- i) Non-resident Exchange Companies even if owned by a bank or financial institution.
- j) All foreign firms/corporations, other than banks and financial institutions owned by Banks, incorporated and operating abroad provided these are owned by persons who are otherwise eligible to open foreign currency accounts.

However, the facility is not available to airlines and shipping companies operating in/through Pakistan or collecting passage and freight in Pakistan and the investment banks, leasing companies and modaraba companies including those which have been granted licences to deal in foreign exchange.

(ii) Opening of foreign currency account covered by sub-para (i) is subject to the condition that these are not fed with:

- a) any foreign exchange borrowed under any general or specific permission given by the State Bank, unless otherwise permitted;
- b) any payment for goods exported from Pakistan;
- c) proceeds of securities issued or sold to non-residents;
- d) any payment received for services rendered in or from Pakistan;
- e) earnings or profits of the overseas offices or branches of Pakistani firms and companies including banks, investment of resident Pakistanis abroad; and
- f) any foreign exchange purchased from an Authorised Dealer in Pakistan for any purpose.

(iii) Corporate Bodies/Legal entities cannot generate funds from the Kurb market for deposit in their foreign currency accounts.

(iv) Foreign currency accounts can be fed by remittances received from abroad, travellers cheques issued outside Pakistan (whether in the name of account holder or in the name of any other person), foreign currency notes and foreign exchange generated by encashment of securities issued by the Government of Pakistan.

(v) Opening by firms/companies of foreign currency accounts, which are to be fed through the funds of foreign equity/foreign currency loans raised for establishment of industrial and other projects and by contractors who receive payments in foreign exchange from the employers, would be as per procedure laid down in paragraph 8 of this chapter.

(vi) These accounts are free from all Foreign Exchange restrictions. In other words, account holders have full freedom to operate on their accounts to the extent of the balance available in the accounts either for local payments in Rupees or for remittance to any country and for any purpose or for withdrawals in the shape of foreign currency notes and travellers cheques. However, a restriction was placed on withdrawal in foreign currency from some categories of foreign currency accounts existing as on 28th May, 1998. The instructions issued vide FE Circular No.12 of 1998, as amended from time to time, would continue to be operative, till the restrictions are lifted. Holders of such accounts are, however, free to transfer their accounts from one Authorised Dealer to another.

(vii) Accounts can be maintained and payments (excluding local payments) made in any currency of choice of the account holder. Credit Card facility can be obtained by the account holders to the extent of the balances held in their respective accounts, for utilization in and outside Pakistan provided settlement of the bills in respect of expenditure within the country is made in Rupees only and the relevant foreign currency amount is taken by the Authorised

Dealers in their daily exchange position.

(viii) Authorised Dealers can mark lien on the foreign currency accounts in respect of banking facilities like credit cards, bank guarantees and loan/credit etc. availed of by the account holders in and outside Pakistan. The aggregate amount of the facilities availed of in and outside Pakistan should not, however, exceed the balance in the respective accounts at any point of time and the regulations on credit should be strictly adhered to.

(ix) Head/Principal Offices of Authorised Dealers will send to the State Bank of Pakistan, Central Directorate, Karachi such returns in respect of these foreign currency accounts as may be prescribed from time to time.

2. Different Schemes for Foreign Currency Accounts.

Foreign currency accounts covered by paragraph (1) could be opened by the Authorised Dealers upto 28th May, 1998 under the State Banks forward cover scheme, and thereafter under the rules introduced vide FE Circular No.25 of June 20, 1998. Separate ledgers will be maintained by the Authorised Dealers for these foreign currency accounts. In addition, Special Foreign Currency Accounts can be opened with the specific or general permission of the State Bank.

3. State Banks Forward Cover Scheme.

(i) Under the State Banks forward cover scheme, the Authorised Dealers will fix their own rates of interest for Term Deposits of 3 months, 6 months, 12 months, 2 years and 3 years provided they do not exceed the average Bid rates provided by British Bankers Association (BBA) for the concerned currencies at the close of business on the previous working day plus the margins prescribed by the State Bank from time to time. The maximum rates for payment of interest, including the margins allowed by the State Bank, are published daily by the Foreign Exchange Rates Committee.

(ii) As regards foreign currency deposits of less than 3 months including Call Deposits, Savings Bank, Special Notice etc. accounts, Authorised Dealers shall pay interest on the basis of return last allowed on similar Rupee PLS Accounts provided the rate at which interest is paid does not exceed the interest rate applicable to 3 months Term Deposits of the relevant foreign currency.

(iii) Authorised Dealers shall sell all the deposits in foreign currency accounts to the State Bank in multiples of US\$ 1,000/-, £ Stg.1,000/-, Euro 1,000/- and J. Yen 250,000/-. State Bank shall cover exchange risk of all such deposits as well as interest accruing thereon at the option of the Authorised Dealers, subject to payment of fee at the time of taking the forward cover at the rate(s) prescribed by the State Bank from time to time. Fee is payable on the full amount of forward cover obtained notwithstanding whether it is in respect

of the amounts of deposit or for both the amount of deposit and interest. In case of premature withdrawal of deposit, fee for the unexpired period is refundable.

4. Acceptance of Deposits from foreign banks operating abroad and overseas branches.

As an exception to the rules set out in paragraph 1(i) to (j) of this chapter, Authorised Dealers can accept foreign currency deposits from their overseas branches and foreign banks operating abroad, including financial institutions owned by them, provided the amount and period of maturity of such deposits is not less than those prescribed from time to time. Interest on these foreign currency deposits can be paid by the Authorised Dealers annually, six monthly or quarterly in accordance with the option exercised by the depositor in writing at the time of placement of deposits. Interest can be paid at the rate not exceeding the prescribed margins over Bid rate for the respective period as provided by the BBA at the close of business on the working day immediately preceding the date of deposit as published by the Foreign Exchange Rates Committee.

5. Payment of subsidy on account of interest differential.

Where the interest paid on foreign currency Term Deposits of 3, 6 and 12 months on the basis of BBA's bid rates as prescribed in the earlier paragraphs exceeds the return last allowed on similar Rupee PLS Accounts, State Bank shall reimburse the amount of differential on account of the excess to the Authorised Dealers. For the purpose of claiming reimbursement of the differential, Authorised Dealers should furnish to the Chief Managers' Offices of the State Bank, details of individual foreign currency Term Deposits in the prescribed form (Appendix V-3) while surrendering the amount of foreign exchange to the State Bank. This statement will be submitted in triplicate and bear running serial number. After the interest has been paid, claim for payment of interest differential will be lodged by the Authorised Dealers with the Chief Managers' Offices of the State Bank in the form given at Appendix V-4.

6. F.E. 25 Scheme.

(i) The amounts of foreign currency deposits accepted outside State Banks forward cover scheme i.e. under F.E. Circular No. 25 of 1998, are not required to be surrendered to the State Bank and the Bank will not provide any forward cover for the same. The Authorised Dealers accepting such deposits are free to lend, invest and place on deposit such funds in Pakistan and abroad subject to the observance of regulations prescribed under the Banking Companies Ordinance.

(ii) Authorised Dealers are free to decide the rate of return offered on such deposits, provided the maximum rate of return does not exceed LIBOR applicable on the date of

determination of such return/profit.

7. Special Foreign Currency Accounts of Private Power Projects.

(i) Authorised Dealers may open the following Special Foreign Currency Accounts/Off-shore Foreign Currency Accounts of private power projects in Pakistan as per the Implementation Agreements (IAs) entered into with Private Power and Infrastructure Board (PPIB), Government of Pakistan. These accounts will be maintained during the construction and operation of the projects for the following purposes subject to the conditions mentioned against each and the balances held in such accounts will be retained by the Authorised Dealers in addition to their Exposure Limits and will also not be required to be reported under F.E. 25 Scheme:

Special Foreign Currency Account in or outside Pakistan.

This will be maintained for deposit of foreign equity and foreign currency loan under the Loan Agreement registered with the State Bank. The amounts available therein will be utilized for the purposes of the project as provided for in the IAs.

b) Special Foreign Currency Insurance Account.

This will be maintained for depositing amounts required for payment of insurance/reinsurance premia and for receiving insurance/reinsurance claims against covers taken in foreign currency outside Pakistan with the approval of the Controller of Insurance or with State Banks approval from an insurer in Pakistan, provided that amounts not required for meeting expenditure in foreign exchange will be repatriated to Pakistan and converted into rupees.

c) Off-Shore Foreign Currency Control Account.

This will be maintained subject to the condition that PPIB/Independent Engineer would determine for each project the portion of revenues required to meet the foreign currency cost for operating the project.

d) Off-Shore Foreign Currency Operating Account.

This will be maintained subject to the condition that O&M expenses to be remitted/deposited periodically to this account will be apportioned by the PPIB/Independent Engineer.

e) Off-Shore Disputed Payment Escrow Account.

This will be maintained subject to the condition that the balance will be remitted to Pakistan once the dispute is over.

f) Off-Shore Foreign Currency Debt Payment Account.

This will be maintained for depositing the amount required for Debt Service.

g) Off-Shore Debt Service Reserve Account.

This will be maintained subject to the condition that this account will be liquidated simultaneously with the retirement of debt and the maximum balance in this account would not exceed the next 12 months Debt Service Payment (both Principal and Interest).

h) Off-Shore Foreign Currency Maintenance Reserve Account.

This will be opened and maintained subject to the condition that this amount will be liquidated simultaneously with the life of the agreement and that this account will hold the maximum of US\$ 3 million during the term of Power Purchase Agreement.

i) Off-Shore Foreign Currency Dividend Account.

This will be used for receiving remittance of dividends as and when declared and paid by the company.

(ii) A monthly statement in the form prescribed at Appendix V-5 will be submitted for each account separately along with a certificate from the company's auditors to the effect that the payments made from the accounts are strictly in accordance with or covered under the IA, Power Purchase Agreement or other agreements, if any, approved by the Government.

(iii) Interest earned on balances held in these accounts will be repatriated to Pakistan.

(iv) There will be nil balance in the Main Control Account and all other accounts after the expiry of the relevant Agreement Period.

(v) Any earnings from dealing in currency/exchange should also be repatriated to Pakistan.

(vi) Authorised Dealers will ensure that Income Tax, wherever due on payments made through the accounts, is duly deducted and paid to the Income Tax Authorities.

(vii) Authorised Dealers may also open Special Foreign Currency Accounts of the foreign EPC (Engineering, Procurement and Construction) and O&M (Operation and Maintenance) contractors of the Power Projects operating in Pakistan with the approval of the Government for receipt of foreign currency amounts under the contracts awarded to them by the Power Projects and its utilization in accordance with the EPC/O&M contracts.

8. Special permission for Foreign Currency Accounts.

(i) Foreign Oil/Mineral exploration companies and foreign contractors and their foreign sub-contractors may be allowed by the Authorised Dealers to open foreign currency accounts

under the Scheme described in paragraph 6 or Special Foreign Currency Accounts subject to the condition that they will meet all their expenditure in Pakistan including salaries of foreign nationals/non-residents in Pak Rupees only, out of rupee payments, if any, received by them in terms of their contracts/by converting in the inter-bank market funds received from their Head Offices/by converting funds from their foreign currency accounts in the inter-bank market.

(ii) (a) Firms and companies raising foreign equity and foreign currency loan may be allowed by Authorised Dealers to open special foreign currency account for receiving and retaining the foreign funds on submission of information about the source of foreign funding and the amount required to be retained in foreign currency. The funds available in such foreign currency accounts can be used by the account holders for making only those types of payments which are otherwise permissible in terms of the instructions laid down in this Manual (e.g. imports, consultancy) and which are related to the business of the account holder. Any amount not so used will be required to be converted into rupees in the inter-bank market and no withdrawal will be allowed in the shape of foreign currency notes.

(b) The concerned Authorised Dealer will be required to submit monthly statements in the prescribed proforma (Appendix V-5) alongwith the related import documents, invoices, agreements etc.

9. General permission for Maintenance of Accounts abroad by Resident Pakistanis.

Pakistan nationals resident in Pakistan are not permitted to open or maintain any foreign currency accounts with banks etc., outside Pakistan. As an exception, they can maintain foreign currency accounts abroad in any country other than Afghanistan, Bangladesh, India and Israel provided the balances held in such accounts do not exceed U.S.\$ 1000/- or equivalent thereof in other currencies as provided in Government Notification No. SRO 1016(1) 79 dated the 17th October, 1979. These accounts cannot, however, be operated from Pakistan without the prior approval of the State Bank.

10. Reporting of receipts into and payments from foreign currency accounts.

Receipt of foreign currency amounts for credit to the foreign currency accounts under the Forward Cover Scheme should be reported by the Authorised Dealers as "Purchase" on Schedule 'J' under Code 9718 in the case of accounts opened in terms of paragraph 1 and under Code 9828 in respect of accounts opened under special permission granted by the

State Bank in accordance with the provisions of paragraphs 7 & 8 *ibid*. Similarly payments out of the foreign currency accounts should be reported by the Authorised Dealers as "Sale" on Schedule E-4 under Code 1718 in the former case and under Code 1828 in the later case. Transactions in accounts covered by paragraph 6 are not required to be reported in the summary statements.

11. Reporting of local disbursements from foreign currency account.

Authorised Dealers should report the payments in rupees from foreign currency accounts as "Sale" on Schedule E-4 under Code 1718 or 1828, as the case may be. The Rupee receipts should simultaneously be reported as "Purchase" on relevant schedules under a code appropriate to the purpose of the receipt.

12. Reporting of interest on foreign currency accounts.

Interest paid by Authorised Dealers on Foreign Currency Accounts should be reported as "Sale" on Schedule E - 4 of the monthly foreign exchange returns under Code 1226.

13. Surrender of Foreign Exchange.

In exercise of the powers conferred by Section 9 of the Act, the Government have issued Notification No. SRO 1016(1) 79 dated the 17th October, 1979 (Appendix II-8) requiring all citizens of Pakistan and other persons residing in Pakistan continuously for six months or more, who become the owner of any foreign exchange whether held in Pakistan or abroad, to sell such foreign exchange to an Authorised Dealer within three months of the date of acquisition by them of such foreign exchange. The provisions of the aforesaid notification do not apply to the following cases viz:

(i) Foreign exchange held abroad by foreign diplomats and foreign nationals employed in Embassies and Missions of foreign countries in Pakistan.

(ii) Foreign exchange held abroad by foreign nationals or foreign business houses, except to the extent that it represents their earnings abroad in respect of business conducted in Pakistan or services rendered while in Pakistan.

(iii) Foreign exchange held by residents in Pakistan in countries other than Afghanistan, Bangladesh, India and Israel provided the amount does not exceed in the aggregate U.S. \$1000/- or equivalent thereof in other currencies.

(iv) Afghan currency whether held in or outside Pakistan.

For the purposes of the aforesaid notification the term "residents in Pakistan" excludes citizens of Pakistan in foreign countries so long as they stay outside Pakistan, but includes foreign nationals who reside continuously in Pakistan for six months or more.

14. Payments by Foreign Nationals in Foreign Currencies.

Payments in foreign currency by foreign nationals residing in Pakistan to or on behalf of residents of Pakistan whether Pakistanis or foreign nationals are prohibited. Foreign nationals should not, therefore, directly or indirectly, make foreign currency available to the residents or to other persons on their behalf against payment in Rupees. Such payments are prohibited even from their foreign currency accounts which they are permitted to maintain and operate from Pakistan.

15. Foreign Exchange received by Residents in Pakistan.

Payments in foreign exchange received by an Authorised Dealer on behalf of a resident in Pakistan must not be retained in foreign exchange but must be converted into Rupees unless the State Bank has given general or special permission to the beneficiary to retain the foreign exchange received by him.