

Rules & Regulations for Exchange Companies of ‘B’ Category

1. The procedure for establishing an E.C. (B) is as follows:

(a) The applicants (Minimum 5 AMC's) interested in formation of Exchange Companies of 'B' Category [E.C. (B)] would, in the first instance apply on prescribed Form to the State Bank for obtaining an NOC, which shall be processed within 3 working days by the SBP.

(b) On the receipt of the NOC from the SBP, the applicant will submit an application to SECP for incorporation under the Companies Ordinance.

(c) After the E.C. (B) is registered by SECP, the applicant would apply to the SBP for issuance of Licence against surrender of atleast 5 Money Changers Licences and for commencement of operations.

2. The trade name of the E.C.(B) shall not include the word "Bank", "Financial Institution", "Investment/ Commercial/Finance/Real Estate" or any other description that indicates activities other than permissible business. The name should clearly mention the words "Exchange Company –B".

3. The minimum paid-up capital of the company would be Rs.20 Million. The E.C.(B) will be required to raise its paid-up capital to Rs. 25 million by 30th June, 2005.

4. 10 percent of the Capital shall be maintained as Reserve with the State Bank in the form of cash or unencumbered approved government securities.

5. The E.C. (B) shall be authorized to deal in only sale and purchase of foreign currency notes and coins.

6. The E.C. (B) will be prohibited from engaging in any other activity such as remittances transfers, deposit taking, lending etc., directly or indirectly.

7. The E.C. (B) would be allowed to buy and sell foreign exchange to and from individuals and Exchange Companies of either description in 'Ready' value only.

8. The E.C. (B) shall also be allowed to "sell" foreign exchange in only 'Ready' to the banks as counter party (Interbank Market).

9. The E.C. (B) would be allowed to establish up to 5 branches under each Licence. For additional branches beyond 5, a fee of Rs.25, 000/- per branch shall be payable to SBP.

10. The E.C. (B) shall not be allowed to enter into franchise arrangements with Money Changers/other entities.

11. The Directors of an E.C.(B) must possess appropriate knowledge to carry out the exchange business. They should not have been convicted of any offence involving moral turpitude and shall not have failed to honor their liabilities towards banks, tax authorities or other government agencies and shall not have been declared bankrupt nor have been subjected to attachment of their assets by the courts.

12. Directors of E.C. (B) will not be allowed to hold the Director's office in any other Exchange Company or E.C. (B). The directors shall also be barred from borrowing or availing credit or defer payment terms from the Exchange Company (B) in any form.

13. The E.C. (B) shall conduct the exchange business only from such premises as may be approved by the State Bank. The premises should preferably be located at an easily accessible location and shall be relocated only after obtaining prior approval from the State Bank.

14. The E.C (B) will ensure that all requisite support facilities are available which are necessary to carry out their business.

15. The companies shall also equip themselves with necessary qualified staff to properly manage computerized reporting to the State Bank

16. The E.C (B) will be required to sell their FCY holding at the end of the day either to other E.C. (B), Exchange Companies or to the banks so that no overnight exposure is carried by an E.C. (B) .

17. All dealings between an E.C (B) and its customers shall be supported by official receipts. Such receipts shall be prepared for every transaction in duplicate, one of which shall be provided to the customer and the other shall be kept in record for a period to be specified by SBP.

18. Every receipt provided to the customer shall be sequentially numbered and also bear the name of the E.C. (B), date, nature of transaction i.e. sale/purchase, currency dealt, exchange rate and initials of dealer/authorized employee.

19. For currency exchange transactions exceeding USD 10,000 (or equivalent in other currencies) the name, address and ID/NIC/Passport Number of the customer shall also be mentioned on the receipt after due verification.
20. A notice-advising customers to obtain receipts of all transactions shall be prominently displayed at each branch.
21. Another notice declaring the exchange rates applicable for currency sale/purchase shall also be displayed at a prominent place in each branch.
22. For the purpose of annual statutory audit, the E.C.(B) shall appoint only those auditing firms that are on the approved list of the State Bank for audit of banks.
23. The E.C. (B) shall maintain proper accounting records and submit the same in such form, as may be required by the State Bank.
24. The company shall invariably submit to the State Bank, within a period not exceeding three months from the date of closing of its financial year, a signed copy of its year end audited accounts.
25. The financial year of the company will be from 1st July to 30th June.
26. The company shall fully abide by all the regulations, instructions, directives, circulars and other communications issued by the State Bank and subject its records and documents to the examination, inspection and supervision of the State Bank. It shall also ensure compliance with all other laws of the land; in particular the provisions relating to counterfeit coins and banknotes.
27. The State Bank reserves the right to inspect the activities of E.C. (B) at any time it finds appropriate to ensure adherence to the regulations issued by the State Bank.
28. The company shall ensure that proper internal controls are in place supported by Internal Audit.
29. Any change in the Memorandum and/or Articles of Association of the company shall only be made after obtaining prior approval from the State Bank.
30. The State Bank may, after scrutinizing the application duly made in accordance with the regulations and after having been provided with all information, documents and reports as may be required, grant or refuse to grant the license. However, issuance of the license will be restricted once the limit has been reached, which will be at the sole discretion of SBP.

31. If an application is submitted, complete in all respects, the decision as to the issuance of Licence or otherwise shall be intimated within 3 working days from the date of submission of such application.

32. The Licence shall be issued for a period of three years, renewable thereafter for the same period.

33. The license will not be transferable to any other entity of whatsoever nature, through any means.

34. An application-processing fee payable to SBP of Rs. 100,000 (non-refundable) shall include authorization to establish maximum upto 5 branches. For any additional branch, the E.C.(B) will have to deposit additional fee of Rs.25,000/-A pay order/draft for this amount favoring SBP should be provided.

35. An application for renewal of license shall be made within a period of not less than three months before the expiry of the original license or any renewal thereof.

36. SBP shall have the right to suspend or revoke a Licence at any time. Before a Licence is suspended/revoked, the Exchange Company shall be served with a notice mentioning therein the reasons for such suspension/revocation and instructions for the company to explain its position in writing within 7 days from the date of issuance of notice.

37. The Licence may be suspended/revoked if:

- a) The State Bank is provided with false, misleading or inaccurate information by or on behalf of the E.C. (B);
- b) It appears to the State Bank that the E.C. (B) has violated these or any other regulation/requirement, instruction or circular issued by the State Bank or if any of the conditions of license has not been fulfilled or is incapable of fulfillment;
- c) The interests of the customers of E.C. (B) are in any way threatened, whether by the manner in which the company is conducting or intends to conduct its affairs or for any other reason;
- d) Any other reason that in the opinion of the State Bank disqualifies the E.C. (B) to hold the Licence.