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CHAPTER 13

IMPORTS

1. Scope of Chapter.

This chapter sets out the regulations relating to sale of foreign exchange by the Authorized Dealers against import of goods into Pakistan from any country.

2. Import Trade Control (I.T.C.).

Import of goods into Pakistan is regulated by the Ministry of Commerce, Government of Pakistan, under the Imports and Exports (Control) Act, 1950 and the notifications issued thereunder. No import is permissible from Israel or from any other country, which may be notified by the Ministry of Commerce. Import of goods originating from any of these countries/sources is also prohibited. Imports from India are regulated as notified by the Ministry of Commerce, Government of Pakistan from time to time.

3. Omitted¹

4. Classification of Imports.

Before establishing any letter of credit/registering contracts, Authorized Dealers should take all precautions to ensure that the goods to be imported under it are clearly classifiable under the Import Trade Control Schedules. In all cases of doubt, reference should be made either by the Authorized Dealer or the importer direct to the TDAP. Failure to do so may result in confiscation of goods or imposition of penalty for violating the provisions of the I.T.C. regulations. In all such cases establishment of letter of credit/registration of contract and/or making of remittance will also constitute infringement of the Foreign Exchange regulations.

5. Terms of Imports.

Subject to the provisions of this chapter, imports can be made on FOB basis, CFR liner terms basis or CFR free out basis. However, prior permission of the State Bank shall be obtained for import of sugar and food grains (cereals) on CFR free out basis.

6. Modes of payments for imports.

Payment for imports may be made either through letters of credit, without letters of credit against documents received for collection on the basis of registration of contracts, or as clean remittance without opening of letter of credit and without registration of contract, as described in detail in the subsequent paragraphs.

6A –Issuance of Electronic Import Form (EIF).²

i. Form Prescribed for Imports

In pursuance of SBP Notification No. F.E.1/2016-SB dated July 26, 2016, all importers of goods are required to make a declaration to the Customs Authorities in WeBOC on Electronic Import Form before filing of Goods Declaration through an Authorized Dealer. Authorized Dealers shall approve EIF request submitted by the importers on the day of i) making advance payment; ii) establishment of letter of credit or iii) registration of contract.

¹Omitted pursuant to FE Circular No. 05 dated August 9, 2016.

² FE Circular No. 05 dated August 9, 2016.

For imports made on open account basis, an importer shall get the EIF approved from an Authorized Dealer before clearance of goods by Pakistan Customs (Open account shall include import transactions in which documents have been received by importer/Authorized Dealer directly from the foreign supplier). The Authorized Dealers may approve the EIF request upon submission of photocopies of shipping documents. However, payment shall be made by the Authorized Dealer as per instructions contained in Para 17 of this chapter.

ii. Registration of the Importers in WeBOC

Registration and deletion of the importers in WeBOC shall be carried out by Pakistan Customs as per their prescribed procedure.

iii. Importer's Customer Due Diligence (CDD)/Know Your Customer (KYC) by Authorized Dealers

- a) Authorized Dealers shall continue to perform CDD/KYC of the importers, being their account holders/customers, as per applicable instructions. The Managers/Proprietor/ Partners/Directors etc. of the concerned company/firm etc. (importer) submitting EIF request, will be held responsible severally and jointly for the import of goods into Pakistan in line with applicable rules and regulations/procedure.
- b) Authorized Dealers may refuse to further approve EIF in case of outstanding import bills of an importer.

iv. Addition and Deletion of Authorized Dealers and their Branches in WeBOC

- a) Authorized Dealers shall request for addition or deletion of their authorized branches in WeBOC through their respective Group/Business Heads to the Director, Foreign Exchange Operations Department (FEOD), SBP, Banking Services Corporation (SBP-BSC), Head Office, Karachi.
- b) If a new bank is issued license of Authorized Dealer by Exchange Policy Department, SBP, it may also request for its addition in WeBOC and its authorized branches by submitting request through bank's Group/Business Head to the Director, FEOD, SBP-BSC, Head Office, Karachi.

v. User IDs and Passwords for Authorized Dealers in WeBOC

- a) The user IDs and passwords already issued to Authorized Dealers by Pakistan Customs for Electronic Form 'E' (EFE) module can also be used for EIF module.
- b) For new users, Authorized Dealers shall submit request for issuance of User IDs and passwords by providing required information as per Annexure (placed at the end of this chapter) to the Director, FEOD, SBP-BSC, Head Office, Karachi, who will forward the same to Pakistan Customs. User IDs and Passwords will be issued and provided to Authorized Dealers directly by Pakistan Customs. For cancellation of User ID and Password, Authorized Dealers shall submit cancellation request signed by their respective Group/Business Heads to the Director, FEOD, SBP-BSC, Head Office, Karachi, who will forward the same to Pakistan Customs for necessary action.
- c) All concerned employees and Authorized Dealers shall maintain confidentiality of WeBOC User IDs and passwords. They shall be responsible for any un-authorized use of their User IDs as per provisions of Chapter XVI-A of the Customs Act, 1969 and rules made thereunder. Further, for all foreign exchange related purposes, all functions performed in WeBOC through User ID of an Authorized Dealer will be construed to have been performed by the Authorized Dealer itself.

vi. Issuance of Electronic Import Form

- a) The importer will submit EIF request electronically through WeBOC to a branch of an Authorized Dealer of its choice. The respective branch will electronically approve or reject EIF request after fulfillment of requirements against particular mode of payment as contained in this chapter. After electronic approval of EIF by the Authorized Dealer, the importer will attach GD in WeBOC with EIF for clearance of goods. The detailed procedure to be followed for issuance of EIF and its attachment with GD is explained in User Manuals for Importers (*Annexure-I*) and Authorized Dealers (*Annexure-II*), which are available at the following links respectively:

http://www.sbp.org.pk/epd/2016/FEC5_Annex1.pdf

http://www.sbp.org.pk/epd/2016/FEC5_Annex2.pdf

- b) The serial number of EIF for each Authorized Dealer will be generated automatically through WeBOC. The format of EIF number will comprise of four components i.e. alpha acronym of Authorized Dealer, the text 'EIF', system generated 6 digit serial number and date of issuance of EIF. For example, first EIF number for XYZ bank issued in year 2016 will be XYZ-EIF-000001-DDMMYYYY. At the beginning of each calendar year, serial number for each bank will reset to 000001.

vii. Amendment in Electronic Import Form

- a) The importer can amend EIF request before it is approved or rejected by the Authorized Dealer. Once Authorized Dealer has approved or rejected EIF, it cannot be amended by the importer.
- b) Authorized Dealer can amend value, quantity, price, validity etc. of the approved EIF upon request by the importer with appropriate documentary evidence/details to the satisfaction of the Authorized Dealer.

viii. Cancellation of Electronic Import Form

- a) Importer can cancel EIF request before it is approved by the Authorized Dealer.
- b) Authorized Dealers can cancel approved EIF before submission of Bank Debit Advice (BDA) or attachment with GD.

ix. Expiry of Electronic Import Form

- a) If no action is taken by Authorized Dealer on EIF request submitted by the importer within 15 days, it will automatically expire in WeBOC.
- b) Expiry date of the EIF should commensurate with the related documents i.e. contract/LC.
- c) In case of advance payments, the expiry date of the EIF must be within four months from the date of advance payment except for cases where approval from SBP has been obtained for extension in period for submission of shipping documents. In this case, SBP approval number and date must be mentioned in 'Remarks' column.
- d) If EIF is not used before the expiry date, it will automatically expire in the system. The expiry date of the EIF may be enhanced by Authorized Dealer upon request by the importer after getting appropriate documentary evidence for the same.

x. Maintenance of Record of approved Electronic Import Form

Complete record of EIF approved by Authorized Dealers through WeBOC shall be kept by respective branches and Head/Principal Office of Authorized Dealers in electronic form. This should be done preferably on weekly basis through acquisition and updation of data from WeBOC. However, Authorized Dealer can also take print-out of EIF from WeBOC.

xi. Filing of Bank Debit Advice (BDA) in WeBOC

Authorized Dealer shall fill in BDA for each EIF in WeBOC at the time of import payments as provided in EIF module. In case of payment on open account basis, payment will only be made after clearance of goods by the Customs.

xii. Payment against goods imported on open account

Authorized Dealers shall allow payments against goods imported on open account basis within six months from the date of filing of GD Form. In case the importer fails to make remittance/payment of goods imported on open account basis within the above stipulated time, appropriate regulatory/legal action may be initiated against the importer.

xiii. Shipment and Payment against transition consignments

From September 1, 2016 onwards, all import consignments, including those against which advance payment has been made previously, shall only be cleared upon attachment of approved EIF with the respective GD.

- i) Where advance payment has been effected by the Authorized Dealer before the above date, the Authorized Dealer shall approve EIF and file respective BDA with remarks as “Advance payment effected on..... vide Form-I No.....”. Subsequently, such EIFs shall be settled/closed after completion of the transaction and attachment of GD(s) with EIF.
- ii) Where goods have been cleared by Pakistan Customs before the above date and the payment/remittance has not yet been effected, the Authorized Dealer shall approve the EIF and make payment upon filing of BDA in EIF module. Subsequently, such EIFs shall be settled/closed with remarks as “Goods cleared by Customs vide GD No.....dated.....”.

However, while handling transactions conducted on open account basis, Authorized Dealers must ensure observance of instructions contained in Para 17 of this chapter. Further, transactions already reported through manual Form-I should not be reported again to FEOD on respective schedule.

xiv. Bank to Bank EIF Transfer

- a) If the payment is to be made by an Authorized Dealer other than the one which has approved EIF, the approved EIF can be transferred by the approving Authorized Dealer to the Authorized Dealer making the payment using “Bank to Bank Transfer” utility in WeBOC. The subsequent EIF/BDA settlement/filing/reporting will be the responsibility of the Authorized Dealer receiving the EIF. It

may be noted that upon Bank to Bank Transfer, EIF number including the bank prefix will not change.

- b) Proper record of EIFs which are transferred as per (a) above shall be maintained by both the Authorized Dealers.

xv. Settlement of Electronic Import Form

- a) Once BDA has been filled, shipping documents have been received by the bank and goods have been cleared by Customs, Authorized Dealers are required to settle EIF in WeBOC. Authorized Dealer must ensure, by verification through GD Form that the payment made against imported goods is not more than declared value of goods imported into Pakistan. In case the EIF has been transferred from one bank to another, the bank to which EIF has been transferred will settle it.
- b) In case the Authorized Dealer is unable to settle EIF for any reason, the matter shall be forwarded to FEOD, SBP-BSC, Head Office, Karachi for settlement.

xvi. Short Shipment/Non Shipment against Advance Payment

In cases where advance payment has been effected from Pakistan by an Authorized Dealer on behalf of importer and the value of goods received in Pakistan is less than the advance payment made there-against or where no goods can be imported for any reason, Authorized Dealer will settle the EIF with appropriate remarks after repatriation of the advance payment to Pakistan. Any deviation shall be reported to the State Bank. Instructions in respect of import against advance payments shall be followed meticulously.

xvii. Submission of Returns

Authorized Dealer shall send a printed copy of EIF, BDA, relevant invoices, shipping documents and GD to respective area office of FEOD, SBP-BSC along with E2/P2 with monthly FX returns till further instructions.

xviii. Handling of EIF where Import Payment is not involved

Authorized Dealers are also allowed to approve such EIFs against which no payment/remittance outside Pakistan is required. These may include goods imported temporarily into Pakistan with a view to subsequent exportation, subject to terms and conditions determined by Federal Board of Revenue, under Project Loans and Credits on free of payments basis or under special approvals from the State Bank. Authorized Dealers, while approving such EIFs, must ensure that necessary documentation/ approvals are in place. Further, proper reference of the approval/reason must be mentioned in 'Remarks' column in EIF module.

xix. Exclusions (Where EIF is not required)

EIF shall not be required for certain GD types as stipulated by Pakistan Customs through their Circulars/Notices issued from time to time.

xx. Powers of State Bank of Pakistan and Pakistan Customs

- a) In case of exceptional circumstances, the relevant officer of Pakistan Customs not below the rank of Additional Collector, if so satisfied with the transaction may permit clearance of goods without the requirement of EIF. However, payment against such consignments shall be made upon filing

of EIF and subsequent BDA in WeBOC. Authorized Dealers shall refer all such cases to FEOD, SBP-BSC, Head Office, Karachi for settlement.

- b) If found necessary, the Director, FEOD, SBP-BSC, Karachi may allow cancellation, settlement or transfer of EIF approved by an Authorized Dealer to another Authorized Dealer through EIF module in WeBOC.

7. Letters of Credit to be opened only against Firm Contracts.

Authorized Dealers should ensure before opening a letter of credit that in each case a firm commitment exists. For this purpose, they should ensure that an invoice, order or indent has been issued by an indentor. It is also permissible to open a letter of credit on the basis of proforma invoice/order issued/accepted by the foreign supplier. Authorized Dealers should also ensure that while opening letters of credit, full description of the goods to be imported is given in each credit alongwith their prices. In all cases where the amount of the letter of credit is Rs.1,500,000/- or over, Authorized Dealers should obtain a confidential report on the exporter from their branches or correspondents abroad or in their discretion satisfy themselves as to the standing of the shipper by consulting standard books of reference issued by international credit agencies such as Seyds, Dunn and Bradstreet. Such reports should be obtained by the Authorized Dealers themselves and the reports if submitted by the importers should not be accepted. Even in the case of imports of the value of less than Rs.1,500,000/-, it is important that the Authorized Dealers satisfy themselves about the bonafides of the transactions before opening letters of credit.

8. Methods of Payment under Letters of Credit.

(i) Letters of credit may be established providing for payment to beneficiary either in the country of origin of goods or in the country of shipment of goods.

(ii) Authorized Dealers may also establish letters of credit providing for payment to the beneficiary in a third country, not being the country of origin of goods or the country of shipment provided they are satisfied that the payment to the beneficiary in a third country does not involve extra expenditure. This facility is, however, not admissible for the import of goods which are directly shipped from the ACU member countries.

(iii) Authorized Dealers may also establish letters of credit providing for shipment of goods of the origin of more than one country provided the beneficiary remains the same and the shipment does not involve extra expenditure.

(iv) Letters of credit established as per (i), (ii) and (iii) above should provide for payment in any of the following manners:

- (a) in any foreign currency.
- (b) in Rupees for credit to the non-resident bank account of the country of the beneficiary or of the country of origin/shipment of goods.
- (c) Through ACU Clearing Arrangement where letters of credit envisage shipment directly from ACU member countries.

(v) Opening of letters of credit providing for payment in any other manner requires prior approval of the State Bank. Such requests giving full facts of the case alongwith their recommendations should be forwarded by the Authorized Dealers to the State Bank.

(vi) It is not permissible to establish letters of credit providing for alternate countries of origin of goods unless prior approval of the State Bank is obtained. Letters of credit providing for goods of 'European Union' origin may, however, be opened.

9. Opening of/extension in letters of credit—time frame/change of beneficiary and commodity/other amendments.

- (i) Authorized Dealers can open letters of credit and extend their validity for a period allowed by the import policy announced by the Ministry of Commerce subject to compliance with all the conditions laid down therein.
- (ii) If the Import Policy does not lay down any instruction in this regard, they may open letters of credit for a period upto 12 months. However, in respect of machinery and mill-work which are required to be specifically manufactured and the period of manufacture is more than 12 months, the letter of credit may be opened for a period upto 24 months. The validity of a letter of credit may be extended by the Authorized Dealers for further periods not exceeding 12 months at a time on payment of fee, if so prescribed in the Import Policy, provided there has been no change in the Import Policy/Exchange Regulations in relation to the importability of the goods, the country of origin/shipment, and the method of payment/and if approached within its validity. An expired letter of credit may also be similarly revalidated subject to the same conditions.
- (iii) Authorized Dealers are also allowed to amend the letters of credit envisaging change of the beneficiary/goods at the request of the importers provided the importers approach the Authorized Dealers for the change within the validity of the letter of credit and import of the goods covered by the letters of credit are still permissible.
- (iv) Authorized Dealers should also ensure to make endorsement of L/C opened for items (other than freely importable items) whose import is subject to certain conditions, in the original Category Pass Book. In case an importer opens letters of credit with more than one bank, the Authorized Dealer holding the original Category Pass Book will make out photo state copies thereof, authenticate the same and furnish other concerned Authorized Dealers with it and will keep record thereof.
- (v) Authorized Dealers may also make other amendments in the letters of credit without reference to the State Bank provided the amendments are not in conflict with the provisions of this Manual or the Import Trade Control Regulations.
- (vi) Letters of credit may provide for negotiation of documents within a period not exceeding 30 days from the date of shipment.

10. Terms on which Letters of Credits may be opened.

All letters of credit and similar undertakings covering imports must provide for payment to be made against full set of clean on board (shipped) bills of lading, air consignment notes, railway receipts, post parcel receipts (or in the case of bulk import of books from U.K. against "Statement of Dispatches" in lieu of post parcel receipts) showing dispatch of goods to a place in Pakistan.³ In case of Karachi, port of discharge should be specified as either Keamari, Karachi or Port Qasim, Karachi under importer's specific instructions. The mention of "any port in Pakistan" or "Karachi" as the port of discharge should be avoided unless specifically required in the underlying contract giving option to the foreign exporter in respect of the port of discharge. Sea-way bills should not be accepted. All letters of credit must specify submission of invoices certifying the country of origin in addition to any other certificate prescribed in the Import Policy.

11. Import of Old Ships for Scrapping.

Letters of credit for import of old ships for scrapping may be opened by the Authorized Dealers in accordance with the normal procedure after scrutiny of the following documents:

- (i) Memorandum of agreement or contract of sale; and

³EPD Circular letter No. 03 dated April 29, 2004.

- (ii) Confidential reports on buyers and sellers.

Authorized Dealers will satisfy themselves that the ship is free from all encumbrances and that the seller has a legal title to the ship.

12. Letters of Credit for Shipment by Country Craft, Motor Launch or Truck.

Ordinarily it is not permissible to open letters of credit providing for shipment by means of country craft, motor launch or truck except by public sector agencies or by well established and reputable firms in the private sector, provided in the latter case the Authorized Dealers are satisfied about their financial and business integrity and they have no doubt that the goods covered by such letters of credit will be received in Pakistan.

In the case of other importers in the private sector, letters of credit for import of goods by means of country craft, motor launch or truck may be opened by the Authorized Dealers subject to the following conditions:

- (i) The supplier abroad furnishes guarantee of a bank in the country of export for an equivalent amount to the effect that should the goods be lost or damaged or pilfered in transit, the above guarantee can be invoked and the amount remitted against the letters of credit recovered.
- (ii) Alternatively, the letter of credit provides that payment will be made to the foreign suppliers after the goods have been received and cleared by the Customs in Pakistan.

In respect of importers in the private sector who are unable to fulfill the conditions at (i) and (ii) above, the Authorized Dealers should refer their cases to the State Bank with full particulars.

13. Remittances in Excess of the Amount of Letter of Credit.

In cases where the value of documents exceeds the amount of the letter of credit and the foreign correspondent negotiates the documents because of the excess amount being small or sends them on collection basis, Authorized Dealers may allow remittance of the excess amount subject to the condition that the amount does not exceed 5 percent of the amount of credit subject to a maximum of US \$500/-. The bill of entry/certified invoice in respect of the consignment will be required to cover the increased amount.

14. Types of Letters of Credit not permitted.

It is not permissible to open clean, revolving, transferable or packing credits. Applications for opening such letters of credit should be referred to the State Bank with full particulars.

15. Prohibition to open Letters of Credit for Import from certain Countries.

It is not permissible to open letters of credit for imports into Pakistan in favour of beneficiaries in Israel or of goods originating from that country.

16. Imports on the basis of Registration of Contracts/Collection.

The undernoted procedure will be adopted for making import payments on the basis of registration of contract without opening letter of credit: -

- (i) The importer will submit a copy of the contract/purchase order/proforma invoice/indent etc. to the Authorized Dealer for registration.
- (ii) The Authorized Dealer registering the contract etc. will issue to the importer, a registration certificate in the format appearing at Appendix V-27.

- (iii) In case the documents covering imports are received by the Authorized Dealer which had registered the contract/purchase order/indent/proforma invoice, directly from the banker of the supplier abroad, Authorized Dealers have general permission to make such remittances there-against. However, in case of receipt of photocopies of shipping documents, the instructions laid down in paragraph 17 shall be followed.
- (iv) In case the shipping documents are received by the importer directly, or by the Authorized Dealer from the overseas supplier instead of the banker of the supplier, remittance should be made in accordance with the instructions contained in para 17 of this chapter.
- (v) In case of imports from ACU member countries, remittances will be effected through ACU Clearing Arrangements.
- (vi) Authorized Dealers will incorporate the figures of the contracts registered by them/remittances made thereagainst in the statements as per Appendices V-134, V-135, V-136 and V-137 (para 15-Chapter 22).
- (vii) ⁴However, due to peculiar nature of trade with Afghanistan through land routes, especially through Torkham and Chaman borders, Authorized Dealers are allowed to register contracts of the Pakistani importers and make payments thereagainst as per the following procedure:
 - a) The Authorized Dealer shall register import contract as per the applicable regulations/procedure as defined above.
 - b) The contract may be registered for single shipment or any number of multiple shipments as per the contract.
 - c) Maximum tenure of the contract shall be one year.
 - d) The Authorized Dealer shall approve the Electronic Import Form of the total amount of the contract against which multiple Goods Declarations (GDs) can be attached as per the applicable procedure.
 - e) The requirement for routing of shipping documents through banks shall not be mandatory.
 - f) The Pakistani importer may directly receive shipping documents from an Afghani exporter and get the goods cleared after attachment of GD(s) with Electronic Import Form.
 - g) The Authorized Dealer, upon receipt of copies of shipping documents for each shipment from the importer, shall make payment after verifying amount of intended remittance from GD(s) attached with the respective Electronic Import Form.

17. Imports without letter of credit/registration of the indent/proforma invoice/order (Open Account Basis).

- (i) In terms of the Import Policy, importers are permitted to make imports without opening of letters of credit or registering the indents/proforma invoices or orders with the Authorized Dealers (on open account basis), and make remittances there against after receipt of goods in Pakistan. ⁵Imports made on open account basis include import transactions in which documents have been received by the importer or the Authorized Dealer directly from the foreign supplier.

⁶In this regard, Authorized Dealers may allow manufacturing and industrial users to make payments on open account basis for imports of spare parts/raw materials only. Besides, Authorized Dealers may also allow payments against imports on open account basis as per the below detail:

⁴ FE Circular No. 02 dated February 27, 2017.

⁵ FE Circular No. 09 dated September 15, 2017

⁶ FE Circular No. 07 dated July 20, 2018, EPD Circular Letter No. 13 dated August 29, 2018, EPD Circular Letter No. 15 dated September 14, 2018, EPD Circular Letter No. 01 dated January 01, 2019.

- i. Upto USD 50,000 or equivalent for import of life-saving medicines & devices.
- ii. Upto USD 10,000 or equivalent for import of the following items:
 - a) Essential medicines and devices.
 - b) Aircraft related spare parts/components.
 - c) Lab equipments/instruments imported by educational institutions for their own use.
 - d) Newspapers, magazines, periodicals, books etc.

However, before effecting payment on open account basis for import of life-saving or essential medicines & devices, Authorized Dealers shall obtain a certificate issued by the principal of a teaching hospital in public sector or head of a Government specialized hospital confirming that the medicines/devices/instruments being imported fall under the life-saving/essential category.

In this regard, the following procedure shall be adopted to make payment against goods imported on open account basis:

- a) An importer shall get the EIF approved from an Authorized Dealer before clearance of goods by Pakistan Customs. The Authorized Dealers shall approve the EIF request upon submission/retention of photocopies of shipping documents (e.g. B/L, AWB, TR, RR, Courier Receipt etc.), proforma invoice, commercial invoice etc.
 - b) Authorized Dealers are required to perform Customer Due Diligence (CDD)/Know Your Customer (KYC) of the importers, being their account holders/customers, as per applicable instructions. The Authorized Dealers shall take all possible measures to verify the bonafides of the importer and genuineness of the transaction before approving the EIF.
 - c) Authorized Dealers shall ensure that the goods imported into Pakistan are in conformity with the prevailing Import Policy Order issued by the Ministry of Commerce.
 - d) Authorized Dealers shall ensure that payments against goods imported on open account basis are made by the importer within six months from the date of filing of Goods Declaration Form (GD) for which proper follow up must be made with the importer.
 - e) In addition to the documents mentioned at sub-para (a) above, Authorized Dealers shall obtain copies of GD(s) and duty paid challan/payment receipt, wherever applicable, and make payment after verifying, through WeBOC user ID, attachment of GD(s) with the respective EIF. In case of bonded import, Authorized Dealer shall obtain duty paid challan(s)/payment receipt(s) from the importer in due course.
 - f) Authorized Dealers must ensure that the payment being made against imported goods is not more than the declared value of goods imported into Pakistan.
 - g) Authorized Dealers shall fill in Bank Debit Advice (BDA) for each EIF in WeBOC at the time of making import payment as provided in EIF module and settle the EIF in WeBOC as per applicable instructions.
 - h) Authorized Dealers are required to ensure compliance of proper AML/CFT guidelines while handling trade transactions.
- (ii) In case the importer fails to make remittance/payment of goods imported on open account basis within the above stipulated time, appropriate regulatory/legal action may be initiated against the importer.
 - (iii) Authorized Dealers shall refer the case to the Foreign Exchange Operations Department, SBP-Banking Services Corporation, Head Office, Karachi for prior approval in case the importer/Authorized Dealer is unable to fulfill any of the above conditions/requirements.

- (iv) ⁷At the request of industrial establishments as importers, Authorized Dealers may issue foreign currency demand draft for import of spare parts/machinery, without opening of letter of credit, provided such imports are made by air or by courier. Authorized Dealers will maintain a record of all such drafts issued by them. They will also obtain Exchange Control copy of Bill of Entry and evidence to the effect that the import was made by air/courier. These records will be retained till the next inspection of the concerned bank branch by the State Bank's Inspectors.

18. Import on Usance Basis.

Authorized Dealers may open letters of credit or register contracts for imports into Pakistan providing for payment on usance basis subject to the condition that such letters of credit/contracts do not stipulate payment of any amount by way of interest separately. The usance should commence from the date of issue of Bill of Lading/Air Way Bill etc. or the acceptance of Bill of Exchange by the drawees as the case may be. The letters of credit opened on usance basis cannot subsequently be converted on sight basis. Similarly the terms of the contracts covering payments on usance basis registered by the Authorized Dealers cannot subsequently be changed to sight basis. It is not permissible to effect payments of usance bills prematurely.

19. Imports by Public Sector agencies to which Special Allocation is made by the Government.

Public Sector agencies like WAPDA, Pakistan State Oil, OGDCL, etc. which are allocated foreign exchange for their import requirement or the private parties who are allowed to import on Defence/Railway's account shall make applications to the area offices of Foreign Exchange Operations Department, SBP-Banking Services Corporation for permission to get the contracts registered with the Authorized Dealer/open letters of credit, on Appendix V- 28. Authorized Dealers will register contract/open letter of credit in these cases on the basis of clearance issued by SBP-Banking Services Corporation on Appendix V- 28.

20. Remittance of bank charges in respect of Imports.

Authorized Dealers can make remittance of the following bank charges on account of imports. The particulars of the charges should be specifically mentioned on the relevant forms.

- (i) L.C. Advising Commission.
- (ii) L.C. Amendment Commission.
- (iii) L.C. Confirmation Commission.
- (iv) Negotiation Commission.
- (v) Un-utilized Letter of Credit Commission.
- (vi) Payment Commission.
- (vii) Reimbursement Commission.
- (viii) Collection Commission.
- (ix) Acceptance Commission (Usance Drafts).
- (x) Postage and Cable Charges.

Remittances of bank charges other than the items mentioned above in respect of imports will be subject to the prior approval of the Foreign Exchange Operations Department, SBP-Banking Services Corporation.

21. Remittance of Proceeds of Dishonored Bills.

In those cases where the original drawee dishonors the bill and the foreign shipper or his local agent finds another buyer, the Authorized Dealers may make remittance not exceeding the value of such

⁷ FE Circular No. 15 dated August 15, 2003.

bills without the prior permission of the State Bank if there are no restrictions in the Import Policy issued by Ministry of Commerce.

22. Remittance involving Violation of I.T.C. Regulations.

Authorized Dealers may allow remittance of the value of imports made in contravention of the Import Policy if the Federal Government has condoned the contravention and the Customs have released the goods. Such remittance may be allowed on submission of the invoice, bill of lading and Exchange Control copy of Customs Bill of Entry.

23. General Authority for Remittances against Imports.

Authorized Dealers may approve, on behalf of the State Bank, applications for remittance against imports into Pakistan provided the documents covering imports, whether under letters of credit or otherwise, are received through them and the conditions set out in this chapter are complied with. In the case of imports by post, Authorized Dealers may make remittances without the prior approval of the State Bank, only if the post parcels are addressed directly to them. In cases, where the parcels are addressed direct to the individuals or care of the Authorized Dealers, applications should be forwarded to the State Bank for prior approval.

24. Collection of Freight on Imports on F.O.B. basis in the Private Sector.

The following procedure will be followed for imports on FOB basis in the private sector:

(i) The importers desiring to make imports on FOB basis will get the letters of credit opened/ contracts for imports on consignment basis registered through/with their bankers provided the importers fulfill other instructions issued by the Government of Pakistan/State Bank of Pakistan with respect to imports.

(ii) The shipping lines/airlines will obviously issue Bills of Lading/Airways Bills in connection with FOB imports on "Freight to Collect" basis. As and when freight is required to be paid in Pakistan rupees, the importers will approach the Authorized Dealers who had opened letter of credit/registered the contract for import on consignment basis alongwith a copy of Bill of Lading/Airway Bill indicating the amount of freight payable together with the freight invoice issued by the carrier, where available, for issuance of a certificate in the format appearing at Appendix V-29 which will bear the name/address of the issuing Authorized Dealer and a running serial number.

(iii) The importers will then pay the freight amount to the carriers in Pakistan rupees and will also surrender the "certificate" referred to in the preceding sub-para to the concerned carrier.

(iv) Airlines/shipping companies and their agents will not accept freight on FOB imports without Authorized Dealers' certificate mentioned in sub-para (ii) above. The airlines/shipping companies will invariably attach the said "certificate" (Appendix V-29) in original alongwith the applications to be made for allowing remittance of surplus freight collections.

25. Collection of Freight on F.O.B. Imports by the Public Sector.

In the case of imports by the public sector on FOB basis the carriers should not accept freight in Rupees without the approval of the SBP-Banking Services Corporation. Approval will be given by the SBP-Banking Services Corporation after charging the full amount of the freight to the foreign exchange allocation of the respective Government/Semi-Government agency. While applying for approval, the carrier company will produce with the application a letter in the prescribed form (Appendix V-30) from the concerned Department/Agency authorizing the SBP-Banking Services Corporation to debit its foreign exchange allocation with the freight amount. As an exception, it will be in order for the carriers to accept freight in Rupees on account of F.O.B. imports by the Ministry of Defence only subject to post-facto approval. Application for permission to pay freight in Rupees in respect of imports by the Ministry of Defence will be made by the Controller of Military/Naval/Air Force Accounts in triplicate in the above

proforma. Approval will be accorded by the SBP-Banking Services Corporation on the original copy of the application with the following narration:

"Payment of freight in Rupees as indicated above allowed".

While the triplicate copy of the application will be retained by the SBP-Banking Services Corporation, the original and duplicate will be returned to the Controller of Military/Naval/Air Force Accounts. The latter will furnish the original copy to the carrier concerned.

26. Shipment of Public Sector cargo through PNSC Vessels/PIA.

As an exception to the provision of paragraph 25 *ibid*, it will be in order for the PNSC and PIA to accept freight in Pak Rupees on FOB imports by the Public Sector agencies (Ministries/Departments, autonomous and semi-autonomous public sector organizations) provided the goods are carried by them on freight to pay basis. PIA will, however, accept cargo only for the sectors covered by it. Authorized Dealer's Certificate mentioned in Para 24 (ii) will not be required to be produced to PNSC/PIA by the importing agencies.

27. Payment of Freight on Import of Trade Samples.

Airlines/shipping companies can accept freight in Rupees upto Rs. 2,000/- per year per importer for import of bonafide trade samples. While accepting freight the airlines/shipping companies should obtain a certificate from the importer to the effect that the total amount of freight already paid including the amount to be paid during the calendar year on account of trade samples received by him, does not exceed the limit of Rs. 2,000/- The certificate should be submitted by the airlines/shipping companies alongwith their application for remittance in which the collection of such freight is included.

28. Imports on Private Account.

Certain categories of imports are exempted from the Import Trade Control Regulations. For example, in transit imports, imports by diplomatic officials in Pakistan, imports in bond, imports of gift parcels upto the exempted limit and imports by private parties for their personal use upto prescribed limits. Authorized Dealers should not allow any remittance against such imports except as laid down in Chapter 16.

29. Imports by PICIC/NDLC under Foreign Currency Lines of Credit.

(i) PICIC/NDLC can open letters of credit under the foreign currency lines of credit contracted by them with the approval of the Government of Pakistan, and the foreign currency loans contracted by the Government of Pakistan and placed at their disposal for on-lending to their customers.

(ii) In all the cases of imports against letters of credit issued by PICIC/NDLC, it should be ensured that import is made on C&F basis unless shipment is made on Pak flag vessels and in that case letters of credit may provide for imports on FOB basis on payment of freight in Pakistan rupees.

30. Advance Remittances.

(i) The Facility of advance payment against imports under letter of credit has been dispensed with. However, Authorized Dealers may allow advance payments against irrevocable letters of credit⁸ established on or before July 14, 2018 containing clause regarding advance payment subject to the following terms and conditions:

a) The bank will take all possible measures to verify the bonafides and genuineness of the transaction while processing advance payment request and may get the credit worthiness

⁸ EPD Circular Letter No. 12 dated August 13, 2018

report of the foreign supplier before allowing advance payment. In order to secure advance payment, the bank may also ask the importer to obtain performance guarantee from the supplier's bank.

- b) The bank will obtain an undertaking from the importer on the prescribed form (Appendix V-31) that in case goods are not received for any reason within the period of four months, the bank as well as the customer will ensure repatriation of the advance payment back.
- c) In case the importer is unable to import goods against advance payment within four months or the underlying contract is cancelled, the bank will recover a penalty @1% per month or part thereof on the amount of advance payment from the date of remittance till date of submission of shipping documents or repatriation of advance payment.⁹The bank will deposit the penalty amount in favor of State Bank of Pakistan through RTGS Clearing Account No. 427518. In this respect, a consolidated statement regarding all such cases will be submitted by Head/Principal Offices of the Authorized Dealers to the Director, Foreign Exchange Operations Department, SBP-Banking Services Corporation on monthly basis as per prescribed format (Appendix V-27A).
- d) If a consistent behavior as mentioned at (c) above is observed where actual imports do not take place against advance payments, Authorized Dealer may debar the concerned importer from making any future advance payments under intimation to Exchange Policy Department, State Bank of Pakistan, Karachi.

(ii) ¹⁰Further, in order to facilitate the import of certain essential commodities, Authorized Dealers may process the requests of the relevant importers for advance payment up to US\$10,000/- or equivalent per invoice without the requirement of L/C or Bank Guarantee from the supplier for import of the following items:

- a) Essential medicines and devices.
- b) Aircraft related spare parts/components.
- c) Lab equipments/instruments imported by educational institutions for their own use.
- d) Newspapers, magazines, periodicals, books etc.
- e) Raw materials and spare parts by importers cum exporters for their own use only.

¹¹ Besides, in case of import of life-saving medicines & devices, advance payment may be allowed upto USD 50,000 or equivalent per invoice. However, before effecting advance payment against import of life-saving or essential medicines & devices, Authorized Dealers shall obtain a certificate issued by the principal of a teaching hospital in public sector or head of a Government specialized hospital confirming that the medicines/devices/instruments being imported fall under the life-saving/essential category.

Moreover, Authorized Dealers shall ensure the bona-fides of the underlying import transactions and ensuring that related shipping documents are submitted to them by the importers within four months of the advance payment. In this respect, the bank will obtain an undertaking from the importer on the prescribed form (Appendix V- 31) that in case goods are not received for any reason within the period of four months, the bank as well as the customer will ensure repatriation of the advance payment back. Importers will also be required to furnish to Authorized Dealers at the time of making a request for remittance, an undertaking to produce invoice and bills of lading/airway bill within a period of four months from the date of advance payment. The Authorized Dealers will pursue the matter with the importers and report those cases to the area offices of Foreign Exchange Operations Department, SBP-Banking Services Corporation, where the requisite documents are not produced within the prescribed time limit.

9 FE Circular Letter No. 22 dated Dec 05, 2017

10 FE Circular No. 05 dated April 08, 2015.

¹¹ FE Circular No. 06 dated July 14, 2018, EPD Circular Letter No. 13 dated August 29, 2018, EPD Circular Letter No. 15 dated September 14, 2018, EPD Circular Letter No. 01 dated January 01, 2019.

In case the importer is unable to import goods against advance payment or the underlying contract is cancelled, the bank will recover a penalty @1% per month or part thereof on the amount of advance payment from the date of remittance till the date of submission of shipping documents or repatriation of advance payment. ¹²The bank will deposit the penalty amount in favor of State Bank of Pakistan through RTGS Clearing Account No. 427518. In this respect, a consolidated statement regarding all such cases will be submitted by Head/Principal Offices of the Authorized Dealers to the Director, Foreign Exchange Operations Department, SBP-Banking Services Corporation on monthly basis as per prescribed format (Appendix V-27A). If a consistent behavior as mentioned above is observed where actual imports do not take place against advance payments, Authorized Dealer may debar the concerned importer from making any future advance payments.

(iii) In the case of import of books and subscription to journals and magazines etc., by Government and Semi-Government agencies, Authorized Dealers may allow direct advance remittance as per the instructions contained in sub-para (ii) above. In the case of subscription to magazines/journals etc., there will be no Customs Bill of Entry/certified invoice. In such cases, Authorized Dealers will attach the relative debit note with the printed copy of Electronic Import Form giving on both a suitable remark indicating that the remittance has been allowed in advance. As regards import of books, there will be usual Customs Bill of Entry/certified invoice which will be processed in the normal course.

(iv) Authorized Dealers may allow advance remittances for import of books, journals and magazines etc., by commercial importers as per the instructions contained in sub-para (ii) above. Since magazines and journals are imported in bulk by the commercial importers in their own names, there will be usual Bills of Entry/certified invoices as in the case of import of books.

31. Use of foreign exchange acquired for Imports.

In all cases of remittances against import into Pakistan, the importers shall not use the foreign exchange so acquired other than for that purpose.

32. Omitted

33. Omitted

34. Omitted

35. Loss of Goods.

In the event of total or partial loss of goods, it will be the responsibility of the importers to recover claim from insurance company/shipping company/supplier, as the case may be.

36. Designation of Authorized Dealers for Imports under Special Arrangements.

(i) The State Bank designates Authorized Dealers for handling imports under Foreign Loans/credits and barter agreements including PL-480 programme. Letters of credit for import under these arrangements are required to be established through the designated Authorized Dealers only. Importers are, however, free to approach the designated banks either directly or through their bankers.

(ii) In the case of US AID Loans, PL-480 and KFW (German) Loans, the State Bank designates banks in U.S.A. and Germany also for claiming payment or reimbursement from the loan/aid giving agencies. Similar designation of banks in the country of other aid giving agencies may also be made, if necessary, under the aid/loan arrangements.

37. Rates of Commission to be charged by Banks.

¹² FE Circular Letter No. 22 dated Dec 05, 2017

- (i) Authorized Dealers may recover from the importers following charges:-
 - (a) Bank charges specified in and remittable under the provisions of para 20 of this chapter and the amount of interest, where authorized under loans like US AID Loans and others, payable to the foreign banks handling the transactions at the other end. The amounts of bank charges and interest as mentioned above may be remitted to the foreign banks without the prior approval of the State Bank subject to report on Form 'M'.
 - (b) Their own commission at rates allowed by the Banking Surveillance Department from time to time, if applicable.

In respect of imports under Aids/Loans/Credits/Barters where the business is handled through Authorized Dealers who are not designated banks, the commission will be shared equally between the designated bank and the bank handling the business on behalf of its customers.

(ii) Authorized Dealers may recover commission at the following rates on letters of credit covering imports by the Government routed through State Bank:

- (a) In respect of cash/reimbursable loans/barters expressed in U.S. Dollar or any other foreign currency including L/Cs under A.C.U. arrangement:
 - aa) 1/8 % if the value of the letter of credit is less than Rs.250,000/-
 - bb) 1/16 % if the value of the letter of credit is Rs 250,000/- or more.
- (b) In respect of non-reimbursable credits and Rupee Barters: 3/8 % irrespective of the value of the letter of credit.

The above charges are inclusive of foreign correspondents charges. However, in addition to the above, Authorized Dealers may recover actual cable/telex charges where L/Cs are desired to be established through cable/telex and confirmation charges of foreign bank if foreign bank's confirmation is also to be added on opener's request.

38. Special Features of various Aid Loans and Credits.

(i) **U.S. AID LOANS:** After the signing of the loan agreement, U.S. AID, Washington issues letters of commitment which indicate the salient features of the loan as also the names of designated Pakistani and American banks. U.S. AID loans stipulate minimum monetary limits for the opening of each letter of credit as well as the value of each shipment. They may, however, issue one letter of commitment under each U. S. AID Loan. Goods are required to be shipped on U.S./Pakistan flag vessels in accordance with the shipping requirements laid down in respect of each loan. U.S. Liner Services are available on some ports from where shipments can be made only on U.S. flag vessels. In cases U.S. flag vessels are not available on these ports, shipments can be made on Pakistan flag vessels or on the vessels of any other country which is included in the AID Geographic Code 941 after obtaining waiver from the U.S. AID. From ports where U.S. Liner Services are not available, shipments can be made on Pakistan flag vessels or vessels of other countries included in AID Geographic Code No.941. Two percent or ten percent of the freight amount under U.S. AID Loans on 'Free-Out' and 'Non-Free-Out' basis respectively, which is not financed by AID authorities, is paid from Pakistan's own resources.

(ii) **PL-480 PROGRAMME:** Major food items like wheat, soyabean oil, tobacco and non-fat dry milk are imported under Public Law 480. Banks are not designated for import of wheat which is directly handled by the Ministry of Food. For the remaining items, banks in Pakistan and the U.S.A. are designated for handling imports. Payment to the suppliers is made directly by the Commodity Credit Corporation (C.C.C.) of U.S.A. for which Procurement Authorization (P.A) is issued. Shipments are required to be made on Pakistan and U.S. flag vessels on 50:50 basis. In the event of non-availability of U.S./Pakistan flag vessels, shipments can be made on vessels of any other country at the discretion of Commodity Credit Corporation. In case of shipments by Pakistan flag vessels, Pakistani Shipping

Companies can accept payment of freight in Rupees without approval of the State Bank. In case of shipment on U.S. flag vessels, permission of the State Bank for opening of freight letter of credit/making remittance of freight is required in each individual case.

(iii) **I.D.A. CREDITS:** Imports under I.D.A. Credits can be made from member countries of I.B.R.D. (International Bank for Reconstruction and Development) and Switzerland. Shipment is also required to be made on the vessels of member countries of I.B.R.D. and Switzerland. There are different case procedures for payments under I.D.A. Credits.

(iv) **OTHER LOANS AND CREDITS:** In respect of loans and credits other than those mentioned above, which are provided by various countries, specific instructions are issued by the State Bank from time to time for handling imports and claiming reimbursements thereunder.

38A. Asian Clearing Union (ACU).¹³

(i) **INTRODUCTION:** ACU Clearing Arrangement provides a clearing system through which all eligible payments for current international transactions among the member countries, other than payment relating to travel, are compulsorily settled through the ACU mechanism which allows payment in the AMU or the currency of the participating country in which one party to the transaction resides. However, there is no bar to any contract or letter of credit or invoice being denominated in Non-ACU Currency, provided such contract/letter of credit invariably contains a clause to the effect that payment of equivalent amount in ACU Currency/AMU shall be made through the Clearing Arrangement and also specifies the manner in which the currency of the contract/letter of credit will be converted into the currency of actual payment/AMU. Payments for exports to member countries against letters of credit established under loans/credits taken by the importing country from the international financial institutions like World Bank, Asian Development Bank etc., can be realized in convertible currency outside the Clearing Arrangement.

(ii) ACU Accounts of Authorized Dealers.

a) Authorized Dealers are authorized to open ACU Dollar accounts with their correspondents in the ACU member countries. Only one account will be opened in each Country. The limits for maintaining Nostro balances in ACU Dollar for the banks maintaining accounts under ACU arrangement are fixed and the concerned bank(s) are apprised of it.

b) ¹⁴ACU Euro has been included as the second ACU currency alongwith ACU Dollar w.e.f. 1st January, 2009. The ACU Euro would be equivalent in value to one Euro. Accordingly, transactions under ACU Mechanism, in addition to ACU Dollar (ACUD), may also be denominated and settled in ACU Euro (ACUE). In this regard, Authorized Dealers may establish ACUE accounts with their correspondents in ACU member countries and open their correspondents' ACUE accounts with them. The transactions in ACUE would be reported by the banks to SBP and settled by SBP separately i.e. independent of ACUD transactions. In other words, two separate accounting and settlement systems will be maintained; one for transactions conducted in ACU Dollar (ACUD) and the other one for the ACU Euro (ACUE).

c) The Authorized Dealers are permitted to pay/receive interest, at their discretion, on ACUD and ACUE accounts as per mutually agreed terms and conditions. The balances of ACUD & ACUE accounts together with other foreign currency/Nostro accounts would however be subject to the overall exposure limits of the banks.

d) Authorized Dealers shall issue ACU account statements as and when a transaction occurs and on monthly basis.⁹

(iii) Procedure for settlement through ACU Mechanism.

¹³ FE Circular No. 46 dated November 15, 1995.

¹⁴ FE Circular No. 11 dated December 19, 2008.

- a) The Asian Monetary Unit (AMU) will comprise of ACU Dollar and ACU Euro. One ACU Dollar will be equal to one US Dollar and one ACU Euro will be equal to one Euro.
- b) The banks of the member countries presently maintain Nostro accounts in the currency of the country where the account is maintained. Under the ACU mechanism these accounts will be maintained in "ACU Dollar" or "ACU Euro".
- c) When an Authorized Dealer needs to fund its ACU Dollar/Euro Nostro account with its correspondent bank in another participating country, it will surrender equivalent amount of U.S. Dollar/Euro to State Bank of Pakistan for remittance through ACU mechanism. State Bank of Pakistan will advise the Central Bank in the country concerned to make available the required U.S. Dollar/Euro amount to the concerned bank in that country. State Bank of Pakistan will also advise the General Manager – ACU to credit the account of the Central Bank of that country by debit to its (SBP's) account. When an Authorized Dealer desires to repatriate funds from its ACU Dollar/Euro account with its correspondent bank in another country (correspondent bank), it will request that bank to effect the remittance through the ACU mechanism. The correspondent bank will surrender the requisite amount of U.S. Dollar/Euro to its Central Bank for remittance. The Central Bank receiving the amount will advise State Bank of Pakistan to make available the amount in U.S. Dollar/Euro to the concerned bank. The concerned Central Bank will also advise the General Manager – ACU to credit State Bank of Pakistan's account by debit to its account. State Bank of Pakistan in turn will provide the US Dollar/Euro amount to the bank concerned in Pakistan.

39. Foreign Currency Loans and Credits Negotiated by the Government of Pakistan.

Foreign currency loans and credits negotiated by the Government of Pakistan with the international institutions and other agencies are utilized for import of machinery, capital goods, technical know-how, commodities etc. Such credits negotiated for import of machinery, capital goods etc., are normally placed at the disposal of public sector agencies (who use it by opening letters of credit through the banks designated by State Bank of Pakistan or by arranging direct disbursement by the lending agency) and the Development Finance Institutions e.g. PICIC, NDLC and IDBP who in turn disburse them to their constituents. The credits for import of commodities, raw materials, spares etc., are normally disbursed through banks designated by the State Bank against the allocations made by the Economic Affairs Division, Government of Pakistan. Any other foreign currency credits negotiated privately would require approval of the Federal Government/State Bank.

40. Project Loans and Credits.

In respect of imports under Project loans, banks are also designated. Normally, Authorized Dealers are advised to deliver shipping documents to the importing agencies free of payment.

41. Reimbursable Loans and Credits.

In case of reimbursable loans and credits, imports are financed in the first instance from Pakistan's own foreign exchange resources and reimbursement is obtained from the loan giving agency. In some cases imports are also financed from Pakistan's cash foreign exchange resources pending signing of the relevant loan agreement. As and when the loan agreement is signed, reimbursement is to be sought expeditiously from the relevant Loan/Credit giving agency. The procedures for obtaining reimbursement from the loan giving agencies are worked out on loan to loan basis.

42. Deposit of Counter-Part Rupee Funds with the State Bank in respect of Foreign Non-Project Commodity Loans.

The designated Authorized Dealers will observe the following procedure for deposit of counter-part Rupee funds:

(i) Appropriate Rupee amounts in respect of imports under all foreign non-project commodity loans and credits on non-reimbursable basis will be deposited with the regional office/branch of the SBP-Banking Services Corporation within three working days of the receipt of documents by the designated banks in Pakistan or within 10 days from the date of negotiation by the bank abroad, whichever happens to be earlier, at the rate of exchange prevailing on the date of lodgement of documents in cases where no forward exchange is booked. Where forward cover has been booked, the booked rate is applied for the purpose of depositing Rupee funds.

(ii) The designated Authorized Dealers will submit, to the concerned area Chief Manager of the SBP-Banking Services Corporation, a statement of Rupee deposits at the time such deposits are made against foreign non-project commodity loans and credits in the prescribed form (Appendix V-33). Copies of these statements will also be sent to various Government agencies.

43. Fine on delay in deposit of Counterpart Funds.

In the event of delay in depositing counterpart funds with the SBP-Banking Services Corporation within the prescribed period, the concerned Authorized Dealer will pay to the State Bank fine at the rate of Rs 4 per day per Rs 10,000 or part thereof for the period of delay.

44. Documents received on Collection Basis due to Discrepancy/Documents drawn on usance basis.

(i) In cases where the overseas negotiating bank does not make payment to the supplier but sends the documents to the bank in Pakistan on collection basis due to discrepancy in the documents, the Authorized Dealers will deposit counterpart funds with the SBP-Banking Services Corporation on retirement of the documents by the importers concerned. The prescribed period for deposit of counterpart funds will be reckoned as from the date of retirement of bill by the importer. If the funds are held back by the Authorized Dealers beyond the prescribed period, fine would be charged as per paragraph 43 *ibid*.

(ii) In those cases where the negotiating banks make payment to the suppliers under reserve or guarantee due to minor discrepancies in documents, either the documents should be sent back to the negotiating bank or the counterpart funds deposited with the SBP-Banking Services Corporation within a maximum period of one week from the date of the receipt of the documents. In case, however, the designated bank in Pakistan chooses to retain the documents beyond the prescribed period of one week, a statement of all such cases should be sent to the Director of Accounts, Economic Affairs Division, Government of Pakistan, Islamabad and the concerned Chief Manager of the SBP-Banking Services Corporation showing the particulars of shipping documents and indicating names and addresses of the importers, letters of credit numbers and dates, vessel, commodity and foreign currency amount specifying the detailed reasons for not depositing the amount within the prescribed period of one week. The cases in which deposits are made within a week need not be reported.

(iii) The designated Authorized Dealer is required to deposit counterpart funds with the SBP-Banking Services Corporation within the period specified in paragraph 42 *ibid*. The letters of credit opened by the Authorized Dealers for imports under Aid/Loans and Credits should not, therefore, provide for documents to be drawn on usance basis. Documents with usance clause if received by an Authorized Dealer will not be accepted by the State Bank as sufficient reason for waiver of fine on account of delayed deposit of counterpart funds.

45. Deposit of Funds Received under Reimbursable Loans/Credits.

In case of loans and credits on reimbursable basis, the designated banks are required to deposit funds in the State Bank's Account with the Federal Reserve Bank, New York or with such other banks as may be specified from time to time. The deposits should be made immediately on reimbursement by the foreign loan/credit giving agencies but not later than the date following that on which reimbursement is received. Late deposits will be subject to payment of fine at rates given in paragraph 43 *ibid*. The Authorized Dealers designated to open letters of credit for imports under loans and credits should,

therefore, make necessary arrangements in advance with their correspondents abroad to effect the transfers within the stipulated period. Late receipt or non-receipt of reimbursement advice by the designated banks in Pakistan would not be accepted as sufficient reason for waiver of fine.

46. Exchange Facilities for Merchanting Business by Pakistan Intermediaries.

(i) Residents of Pakistan and firms and companies functioning in Pakistan are allowed to engage themselves in three way merchanting trade through back-to-back letters of credit providing for payment in convertible currency or advance payments excluding payments under bilateral/multilateral accounts, in respect of the following commodities:

1. Crude Oil
2. Edible Oil
3. Wheat
4. Rubber
5. Cotton
6. Tea
7. Sugar
8. Fertilizer

Authorized Dealers are permitted to open letters of credit in favour of third country exporters either against an irrevocable letter of credit on sight basis or against advance remittance in convertible currency received from the ultimate importer subject to the following conditions:

- a) The price differential includes intermediary's commission at not less than one percent, plus actual charges incurred on account of opening of back-to-back letter of credit, buying and selling rates differential etc.
- b) The letters of credit to be established by Pakistani intermediary in favour of third country supplier will carry sufficient usance so that payment becomes due only after receipt of payment from the importer. In case where letters of credit are to be opened against advance remittance, the condition of usance will not be obligatory.
- c) The amount of foreign exchange representing the price differential including commission will be converted into Pak rupees.
- d) No commission or any other claim of whatsoever nature will be allowed to be remitted from Pakistan.
- e) No credit line such as export finance etc. will be available.
- f) Goods will be shipped directly from the country of supply to the country of import.
- g) No forward cover facility will be available for trade under this arrangement. However, if desired, the intermediary Pakistani trader can open a "Special Foreign Currency Account" with an Authorized Dealer in Pakistan for deposit of the proceeds of the letters of credit/advance remittances received from the third country buyer pending (i) eventual payment to the third country suppliers under the back-to-back letter of credit stipulating reimbursement to the third country suppliers out of Special Foreign Currency Account and (ii) conversion into Pakistan rupees of the amount left out after making payment to the third country supplier against back-to-back letters of credit.

General permission has been accorded to the Authorized Dealers for opening and maintaining Special Foreign Currency Accounts for merchanting trade which will be subject to the following terms, conditions and the procedure:

- aa) The account will be fed exclusively through remittances emanating either from the realization of proceeds under an irrevocable letter of credit opened by an overseas buyer for third country goods or advance remittance made by such buyer for supply of third country goods.
- bb) The account will be kept outside the scope of Foreign Currency Accounts Scheme as embodied in Chapter 6 of this Manual. In other words the foreign currency received in such accounts will not be required to be surrendered to the State Bank. Authorized Dealers can hold such foreign currency abroad in addition to the normal balances held abroad.
- cc) Interest accruing on the balances held in the account will be converted into and paid in Pak rupees.
- dd) The exemption of interest income from levy of taxes etc. shall not be admissible.

After payment for import under the back-to-back letter of credit, the Authorized Dealer will prepare a statement in the format appearing at Appendix V-34 matching the receipt and payment for each merchanting transaction individually and will submit the same to the concerned area office of the Foreign Exchange Operations Department. The reporting of inward and outward remittances would be as indicated in the format appearing at Appendix V-35.

(ii) It is also permissible to conduct three-way merchanting trade in commodities other than those mentioned in sub-para (i), subject to the same terms and conditions, except that the margin to be retained by the Pakistani intermediary which includes his commission and expenses, is not less than (a) 10%, if the sale price is to be received from the foreign buyer before remittance of the purchase price is made to the overseas supplier of the goods, and (b) 15% if back-to-back letter of credit provides for payment to be made to the overseas supplier of the goods before receipt of remittance from the overseas buyer.