

CHAPTER 13

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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 for import of goods into Pakistan.

2. Imports and Exports (Control) Act, 1950.

Import of goods into Pakistan is regulated by the Ministry of Commerce, Government of Pakistan through Import Policy Order, issued under the Imports and Exports (Control) Act, 1950, as amended from time to time, through notifications / Statuary Regulatory Order. 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.

3. Omitted.¹

4. Classification of Goods.

Before entering into any import related transaction, Authorized Dealers should take all precautions to ensure that the goods to be imported are clearly classifiable under the applicable Import Policy Order (IPO). In case of doubt, reference should be made either by the Authorized Dealer or the importer directly to the Ministry of Commerce. Failure to do so may result in confiscation of goods or imposition of penalty for violating the provisions of the IPO under Imports and Exports (Control) Act, 1950. In any such instance, establishment of letter of credit/registration of contract and/or making of remittance shall also constitute infringement of the Foreign Exchange Regulations.

5. Terms of Imports.²

Subject to the provisions of this chapter, imports can be made on FOB, FCA, FAS, CFR and CPT basis. Ex-works (EXW) may be allowed subject to the condition that remittance against import shall be made against presentation of shipping documents at the applicant's bank counter and insurance from the supplier's warehouse is arranged by the applicant. For import of goods on incoterms other than those mentioned in this paragraph, prior permission of the Foreign Exchange Operations Department, SBP (BSC) Bank shall be required.

6. Modes of Payments for Imports.

Imports into Pakistan can be made using any of the following modes:

- i Letter of credit
- ii Registered Contract
- iii Documentary Collection
- iv Open account
- v Advance payment

Detail of each mode has been given in the subsequent paragraphs. However, import under any mode shall be subject to the applicable regulatory instructions, inter alia, issued by the State Bank from time to time.

¹ Omitted pursuant to FE Circular No. 05 dated August 09, 2016

² Terms of Imports as per Incoterms 2020 issued by International Chamber of Commerce

6A. Issuance of Electronic Import Form (EIF) in WeBOC.

(i) Form Prescribed for Imports

In pursuance of SBP Notification No. F.E.1/2021-SB dated July 19, 2021³, all importers of goods in Pakistan shall submit a declaration, while undertaking an import transaction, in the prescribed manner and to the prescribed authority, stating that the payment against the goods imported/to be imported has been or will be made through an Authorized Dealer in Pakistan, where required, as per the instructions issued by the State Bank of Pakistan from time to time. Accordingly, for imports through WeBOC, 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 upon i) making advance payment; ii) establishment of letter of credit or iii) receipt of shipping documents under registered contract/on collection basis from the corresponding bank abroad.

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) Know Your Customer (KYC)/ Customer Due Diligence (CDD) of Importers by Authorized Dealers

- a) Authorized Dealers shall continue to perform KYC/CDD of the importers, being their account holders/customers, as per applicable laws/regulations. The Managers/Proprietor/ Partners/Directors etc. of the concerned company/firm etc. (importer) submitting EIF request, will be held responsible jointly and severally for the import of goods into Pakistan in line with applicable rules and regulations/procedure.
- b) Authorized Dealers shall formulate a procedure whereby each of their client is assigned a risk rating/category with respect to trade related activities, performance history and historic reporting of STRs to FMU (if any), in terms of the instructions issued separately by SBP under the Framework for Managing Risks of Trade Based Money Laundering and Terrorist Financing, as amended from time to time.

(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.

³ SBP Notification No. F.E.1/2021-SB dated July 19, 2021 has been issued in supersession of SBP's Notification No.F.E.1/2016-SB dated the July 26, 2016.

(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.pdfhttp://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 digits 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. registered contract/LC.
- c) In case of advance payments, the expiry date of the EIF must commensurate with the prescribed time for import of goods against advance payment except for cases where approval from SBP has been obtained for extension in period for import of goods into Pakistan. In such cases, 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 shall only be made after clearance of goods by the Customs.

(xii) Payment for Goods Imported on Open Account

Authorized Dealers shall allow payments against goods imported on Open Account basis within one year from the date of filing of GD Form. In case the importer is unable to make payment of goods imported on Open Account basis within the above stipulated time, the importer shall approach Foreign Exchange Operations Department, SBP (BSC) Bank, Karachi for extension in time for making the payment.

(xiii) Omitted

(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 making the payment against 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 filed, 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, along with rationale.

(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 have been imported for any reason, Authorized Dealer will settle the EIF with appropriate remarks after repatriation of the advance payment or balance thereof, respectively, to Pakistan. Any deviation shall be reported to the Foreign Exchange Operations Department, SBP (BSC) Bank, Karachi. Instructions in respect of import against advance payments shall be followed meticulously.

(xvii) Omitted

(xviii) Handling of EIF where Import Payment is not involved from Pakistan

Authorized Dealers are allowed to approve EIFs where no payment for import of goods is required from Pakistan including but not limited to:

- a) Under loans and equity, where payment against goods is to be/has been made outside Pakistan either directly by the foreign lender/investor to the supplier or through the off-shore account of the importer credited by the amount of such foreign loan(s)/equity.
- b) Office supplies/ materials/ goods/ machinery from the principal/ Head office to its subsidiary/ agents/ branch office in Pakistan for their own use or to fulfil a contractual obligation locally;
- c) Goods supplied by foreign lender/investor as loan/equity contribution in a company/legal arrangement operating/ resident in Pakistan, subject to compliance with relevant laws/regulations including the foreign exchange regulations on foreign loans/equity.
- d) Goods supplied by the foreign contractors under Operation & Maintenance Contract with the company/legal arrangement operating/ resident in Pakistan to fulfill its contractual obligation.
- e) Good imported into Pakistan which were earlier exported temporarily for repair/maintenance;
- f) Goods imported temporarily into Pakistan with a view to subsequent re-export subject to terms and conditions determined by Pakistan Customs.

Authorized Dealers, while approving such EIFs, must exercise enhanced due diligence to address any possible risk of money laundering/terrorist financing. Authorized Dealers must ensure that necessary documentation (contract, commercial invoice mentioning payment not required, transport documents, undertaking from the buyer that no payment is required to be made for the imports, customs documents)/ approvals are in place and check veracity of the documents submitted and statements made through all possible means. Authorized Dealers should not approve such transactions where these are being used as a tool for netting off other transactions against which payments are required to be repatriated into Pakistan. Authorized Dealers shall ensure that proper reference of the reasons 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 its Public Notice No. SI/MISC/07/2012-ESTT(AW) dated August 18, 2016 and any subsequent Circulars/ Notices issued related thereto.

(xx) Powers of State Bank of Pakistan and Pakistan Customs

- a) In exceptional circumstances, the relevant officer of Pakistan Customs not below the rank of Additional Collector, if 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.

6B. Imports Under Pakistan Single Window (PSW).

(i) Introduction

In terms of Pakistan Single Window Act, 2021, an Operating Entity has been setup to manage the PSW as part of compliance with the Trade Facilitation Agreement of the World Trade Organization. PSW is an automated platform that provides a facility to all importers to electronically submit an integrated declaration at the time of imports of goods. Authorized Dealers shall be integrated with PSW to provide required details of customer's profile, financial instruments, foreign exchange remittance and settlement against imported goods pertaining to their customers.

Importers will have to get themselves registered with the PSW system to obtain customs and other regulatory clearances including licenses, permits, certificates and other documents electronically. In the PSW system all financial information related to imports shall be communicated by the Authorized Dealer to the PSW system through Electronic Data Interchange. However, the declaration for import of goods will be filed with PSW after declaring the relevant bank account through which the remittances for such transaction will be settled; attachment of financial instrument (L/C, contract, collection, advance payment, imports on the basis of 'payment not involved from Pakistan'); and providing cash margin information while importing specified items under Open Account. No financial instrument shall be required for import of items under Open Account which are not specified under cash margin instructions. The import payments shall be shared electronically by the concerned AD to PSW through Bank Debit Advice (BDA).

For imports taking place through One Customs financial instrument shall be issued by Authorized Dealers upon request of importers for all modes of imports.

(ii) Declaration for Imports

In pursuance of SBP Notification No. F.E.1/2021-SB dated July 19, 2021, all importers of goods shall file a declaration, as a part of Declaration required to be filed in PSW system, stating, inter alia, that the payment against imported goods has been or will be made through an Authorized Dealer, as prescribed by State Bank. However, in case of banks which are not integrated with PSW system the Electronic Import Form (EIF) shall continue to be issued by Authorized Dealers at the request of the importers as per the prescribed instructions.

(iii) Registration of the Importers in PSW

The importers shall obtain on-line subscription of PSW to undertake cross border trade related activities on

the PSW platform. A valid trader profile maintained with an Authorized Dealer is mandatory for filing of the declaration in the PSW system.

(iv) Know Your Customer (KYC)/ Customer Due Diligence (CDD) of Importers by Authorized Dealers

Authorized Dealers shall continue to perform KYC/CDD of the importers, being their account holders/customers, as per applicable instructions and the instructions issued through the 'Framework for Managing Risks of Trade Based Money Laundering and Terrorist Financing'. The Managers/Proprietor/ Partners/Directors etc. of the concerned company/firm etc. (importer) filing the Declaration under PSW system will be held responsible severally and jointly for the import of goods into Pakistan in line with applicable laws and regulations.

Authorized Dealers shall formulate a procedure whereby each of their client is assigned a risk rating/category with respect to cross border trade related activities, performance history and historic reporting of STRs to FMU (if any), in terms of the instructions issued separately by State Bank under the Framework for Managing Risks of Trade Based Money Laundering and Terrorist Financing, as amended from time to time.

(v) Establishment of Electronic Data Interchange (EDI) by Authorized Dealers with PSW

Authorized Dealers shall be required to establish EDI with PSW system as per the guidelines/ instructions for sharing of customer's bank profile, financial instrument details, BDAs etc., prescribed by State Bank. This EDI mechanism shall be established by the Authorized Dealers as per required technical details/specifications and related documents provided by the PSW through State Bank.

Authorized Dealers shall be responsible for management, data security, confidentiality and business continuity planning of their systems and information as per applicable standards/ regulations. Further, for all foreign exchange related purposes, all functions performed/ information shared through EDI with PSW system will be construed to have been performed by the AD itself.

(vi) Importer's Bank Profile

Authorized Dealers shall maintain a risk profile of their customers as per applicable regulations. At the time of registration of importer in PSW system, the system shall send an electronic request for validation of importer's bank profile to Authorized Dealers, through EDI. Authorized Dealer shall validate the information provided by the importer including International Bank Account Number (IBAN), contact details (mobile number, email), NTN, modes of payment allowed and other agreed information. All amendments, updates or changes in the importer's status (deactivation, additional restrictions etc.) shall be communicated to the PSW system by Authorized Dealer in real time through the EDI mechanism.

(vii) High risk/negative list of countries/ commodities/ supplier

Authorized Dealers shall share the list of countries/commodities/suppliers which are on their negative list, as per their risk management policies, with PSW system. In case of any matching with any list of negative persons/entities/countries/commodities maintained by PSW at the time of filing of declaration, an exception request will be communicated from PSW to the concerned AD through EDI for the clearance of transaction or otherwise. Meanwhile, the importer will be able to file the declaration through PSW system which shall be processed as per prescribed procedure. However, goods shall be cleared only after approval of the transaction by the Authorized Dealer. Authorized Dealer shall be required to respond to the PSW within one working day of receipt of information from PSW to ensure smooth completion of the clearance of goods. However, the response shall be subject to receipt of required information from the customer, if any.

(viii) Financial Instrument Details

Authorized Dealer shall communicate the details of import transaction in the form of financial instruments through EDI with PSW. The financial instrument shall be issued in the prescribed format on behalf of importers upon i) making advance payment; ii) establishment of letter of credit or iii) receipt of shipping

documents directly from the bank abroad or issuance of shipping guarantee under registered contract/ collection in accordance with the applicable regulations. For imports to be made on Open Account basis, where cash margin is not required, financial instrument shall be issued by the Authorized Dealer upon receipt of declaration from PSW. However, in Open Account cases where cash margin is required, importer will be responsible to provide prior information to the AD regarding the cash margin requirement. AD shall recover required amount of margin and communicate the financial instrument to PSW. Expiry date of the financial instrument must commensurate with the related underlying transaction (i.e. contract/LC/ advance payment) as per applicable regulations. Subsequently, the importers shall attach their declarations in PSW with the respective financial instrument for clearance of goods from Pakistan Customs. The detailed procedure to be followed by importers for filing declaration in PSW is explained in the PSW user manual.

Furthermore, Authorized Dealers can amend financial instruments such as value, quantity, price, validity etc. upon request by the importer with appropriate documentary evidence/details to the satisfaction of the Authorized Dealers. Authorized Dealers can cancel financial instruments before submission of BDA (in case of advance payment) or its attachment with the declaration in the PSW system.

The serial number of financial instruments for each AD will be generated automatically through its system. The format of financial instrument number shall comprise of four components i.e. alpha acronym of AD, the three letters - IMP - depicting transaction to be of import, system generated 6-digit serial number and date of issuance (DDMMYYYY) of financial information e.g. for ABC Bank, the serial number of an instrument shall be ABC-IMP-000001-15032021. However, the Authorized Dealers may add up to three characters, if required, at the end of above number to identify the type of transaction e.g. LC, contract, advance payment etc. At the beginning of each calendar year, serial number for each bank will reset to 000001. Complete record of importer's financial transactions through PSW shall be maintained by respective Authorized Dealers in electronic form as per applicable regulations.

(ix) Filing of Bank Debit Advice (BDA) in PSW

Authorized Dealer shall share Bank Debit Advice (BDA) for financial instrument through EDI with PSW at the time of import payments as per applicable format. In case of payment on Open Account basis, such payment must be made after clearance of goods by the Customs and within one year from the date of filing declaration on PSW system. In case the importer is unable to make payment of goods imported on Open Account basis within the said stipulated time period, the importer through its Authorized Dealer shall approach Foreign Exchange Operations Department, SBP (BSC) Bank, Karachi for extension in time for making the payment. In case of non-payment within the stipulated time, Authorized shall follow up with the importer for making the payment. In case of unsatisfactory response, Authorized Dealer shall refer the case to FEOD, SBP-BSC, Head Office, Karachi for initiating regulatory action per applicable law and regulations.

(x) Shipment and Payment against transition consignments

After switching of Authorized Dealer to PSW system, all import consignments shall only be cleared as per afore mentioned mechanism in PSW with following exceptions:

In cases where goods have been cleared by Pakistan Customs against EIF approved in WeBOC before switching to PSW and the import payment has not yet been affected, the Authorized Dealers shall file BDA against said EIF in the WeBOC after making the import payment. All transactions shall be reported through ITRS as per applicable regulations on respective schedules;

- a) In cases where EIF has been approved by Authorized Dealers in WeBOC before switching to PSW and the same has not been utilized, the AD shall be required to provide requisite details of financial instruments in PSW through EDI as per applicable instructions. The EIF issued in such cases shall be treated as cancelled. The subsequent filing of declaration and sharing of BDA against the import transaction shall be undertaken in PSW; and
- b) In cases where EIF has been approved by Authorized Dealers in WeBOC before switching to PSW and the same has been partially utilized in WeBOC, the AD shall be required to provide requisite details of financial instruments in PSW for the partially unutilized amount through EDI as per applicable instructions. The subsequent filing of partial declaration and sharing of BDA against the

import transaction shall be undertaken in PSW.

(xi) Bank to Bank transfer of Financial Instruments by Authorized Dealers

If the payment is to be made by an Authorized Dealer other than the one initiating the financial instrument, the approved financial instrument can be transferred by the initiating Authorized Dealer to the Authorized Dealer making the payment using “Bank to Bank Transfer” utility in PSW after utilization against declaration(s). The subsequent financial instrument/BDA settlement/filing/reporting will be the responsibility of the Authorized Dealer making the payment. Proper record of financial transaction transferred shall be maintained by both Authorized Dealers.

(xii) Settlement of Financial Instruments

- a) Once BDA has been filed, shipping documents have been received by the bank and goods have been cleared by Customs, ADs are required to settle the financial instrument and share the settlement message through EDI with PSW. In case the financial instrument has been transferred from one Authorized Dealer to another, the Authorized Dealer to which financial instrument has been transferred will settle it and shall share the same with PSW.
 - (i) In case of Open Account imports, Authorized Dealer must ensure, by verification through GD data communicated by PSW that the payment made against imported goods is not more than the declared value of goods imported into Pakistan.
 - (ii) In case of Letter of Credit/ Contract/ Collection, Authorized Dealers must ensure that the value of goods must commensurate with payment made/ to be made by them by verification through GD data communicated by PSW.
 - (iii) In cases where advance payment has been effected from Pakistan by an AD 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 have been imported for any reason, AD will settle the financial instrument with appropriate remarks after repatriation of the advance payment or balance thereof respectively, to Pakistan. However, instructions given at Para 30, advance remittances, shall be applicable.
- b) In case of import transactions where the payments made by Authorized Dealers do not commensurate with the value declared on GD, Authorized Dealers must seek clarification from the respective importer. In case of unsatisfactory response such deviation shall be reported to FEOD, SBP-BSC, Head Office, Karachi, for further necessary action as per applicable laws/regulations.
- c) In case the Authorized Dealer is unable to settle the financial instrument for any reason, the matter shall be forwarded to FEOD, SBP-BSC, Head Office, Karachi for settlement. All transactions shall be reported through ITRS as per applicable regulations on the basis of financial instrument number on respective schedules.

(xiii) Handling of Import Transactions where Payment is not Involved from Pakistan

- A. Authorized Dealers shall not be required to share financial instrument in respect of certain GD types/PCT codes as stipulated by Pakistan Customs/FBR.
- B. For the transactions not covered under sub-para A above, Authorized Dealers will be required to share financial instrument with PSW through EDI containing approval of import transactions against which no payment outside Pakistan is required including but not limited to:
 - a) Under loans and equity, where payment against goods is to be/has been made outside Pakistan either directly by the foreign lender/investor to the supplier or through the off-shore account of the importer credited by the amount of such foreign loan(s)/equity.
 - b) Office supplies/ materials/ goods/ machinery from the principal/ Head office to its subsidiary/ agents/ branch office in Pakistan for their own use or to fulfil a contractual obligation locally;
 - c) Goods supplied by foreign lender/investor as loan/equity contribution in a company/legal

arrangement operating/ resident in Pakistan, subject to compliance with relevant laws/regulations including the foreign exchange regulations on foreign loans/equity.

- d) Goods supplied by the foreign contractors under Operation & Maintenance Contract with the company/legal arrangement operating/ resident in Pakistan to fulfill its contractual obligation.
- e) Good imported into Pakistan which were earlier exported temporarily for repair/maintenance;
- f) Goods imported temporarily into Pakistan with a view to subsequent re-export subject to terms and conditions determined by Pakistan Customs.

Authorized Dealers, while approving such transactions, must exercise enhanced due diligence to address any possible risk of money laundering/terrorist financing. Authorized Dealers must ensure that necessary documentation (contract, commercial invoice mentioning payment not required, transport documents, undertaking from the buyer that no payment is required to be made for the imports, customs documents)/ approvals are in place and check veracity of the documents submitted and statements made through all possible means. Authorized Dealers should not approve such transactions where these are being used as a tool for netting off other transactions against which payments are required to be repatriated into Pakistan. Authorized Dealers shall specify and record the reasons for 'remittance not involved' in their system.

(xiv) **Monitoring of Import Transactions**

Authorized Dealers are required to perform pre/post monitoring of import transactions of all their customers in terms of the instructions issued separately by SBP under the Framework for Managing Risks of Trade Based Money Laundering and Terrorist Financing, as amended from time to time.

7. Import against Firm Contract and Credibility of Foreign Supplier.

- (i) Authorized Dealers shall ensure before entering into import related transaction that in each case a firm commitment exists. For this purpose, they should ensure that an proforma invoice, order or indent has been issued by a foreign supplier/ indenter. Authorized Dealers should also ensure that full description of the goods to be imported is given in each credit/proforma invoice along with their prices.
- (ii) In case of letter of credit, where the value of goods being imported is equivalent to USD 20,000/-/- or above, Authorized Dealers shall, prior to entering into the transaction, 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 an accredited national/ international institution providing such reports. Such reports should be obtained by the Authorized Dealers themselves and the reports if submitted by the importers should not be accepted. Even in case where the value of imports is less than USD 20,000/-, it is important that the Authorized Dealers satisfy themselves about the bona fides of the transactions.

8. Payment against Import.

- (i) Payment against imports may be made to the beneficiary either in the country of origin of goods or in the country of shipment of goods.
- (ii) Authorized Dealers may effect import 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 with the bona fides of the parties involved and genuineness of the transaction. This is, however, allowed only in cases where the beneficiary in third country is the actual exporter with whom the contract for import of goods has been executed. The ADs must exercise proper due diligence in such cases, in accordance with the requirements laid down in Framework for Managing Trade Based ML / TF risk.
- (iii) Authorized Dealers may also carry out an import transaction providing for shipment of goods from multiple countries of origin subject to the condition that the beneficiary remains the same.
- (iv) Payments against imports can be made in any of the following manners:

- (a) in any foreign currency;
 - (b) in Rupees for credit to the Non-resident Rupee Accounts - Repatriable (NRAR) of the beneficiary in Pakistan, subject to compliance with the relevant foreign exchange regulations;
 - (c) Through ACU Clearing Arrangement where the underlying contract envisage shipment directly from ACU member countries except in cases where the beneficiary is registered in other than ACU member countries and the payment is required outside ACU Clearing Arrangement.
- (v) Authorized Dealers may establish cross-border Letter of Credit denominated in PKR; however, EIF shall be issued in equivalent foreign currency. Import payment in this case shall be effected in the manner as prescribed at sub-para (iv) above.
- (vi) Imports under any permissible mode providing for payment in any other manner requires prior approval of Exchange Policy Department, State Bank of Pakistan. Such requests giving full facts of the case along with their recommendations should be forwarded by the Authorized Dealers to the State Bank.

9. Opening of / Amendment in Letter of Credit and Registered Contract.

- (i) Authorized Dealers can open letters of credit/ register contract and extend their validity, if the goods are still allowed under the applicable Import Policy Order issued by the Ministry of Commerce.
- (ii) If the Import Policy Order does not lay down any instruction in this regard, Authorized Dealers may open letters of credit / register contract for a period up to 12 months. However, in respect of machinery and capital goods which are required to be specifically manufactured and the period of manufacture is more than 12 months, the letter of credit/contract may be opened/registered for a period up to 24 months. In both the cases, the validity of a letter of credit / registered contract may be extended by the Authorized Dealers for further period not exceeding 12 months from the date of expiry of original LC/ registered contract. However, where an LC is already issued for import of certain goods and subsequently, through amendments in Import Policy Order, restrictions are imposed in relation to the importability of the goods, the country of origin/shipment or the method of payment, the LC already issued would remain valid.
- (iii) Authorized Dealers are also allowed to amend the letters of credit/ registered contract 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/registered contract and goods requested for import after the amendment are permissible under the applicable Import Policy Order.
- (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, if required in terms of applicable Import Policy Order/SRO issued by Ministry of Commerce. 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 / registered contract without reference to the State Bank provided the amendments are not in conflict with the provisions of this Manual and / or the applicable Import Policy Order.
- (vi) Letters of credit and similar undertakings may provide for presentation of shipping documents at issuing bank's counter within a period not exceeding 30 days from the date of shipment. However, in case of import of crude oil/ petroleum products by oil refineries/marketing companies, letter of credit/registered contract may provide for presentation of shipping documents beyond 30 days but within the validity of the underlying LC/ registered contract.
- (vii) It is not permissible to establish letters of credit providing for alternate countries of origin of goods unless prior approval from Foreign Exchange Operations Department, SBP-BSC Head Office, is obtained. Letters of credit providing for goods of 'European Union' origin may, however, be opened.

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

(i) All letters of credit must provide for payment to be made against full set of clean on board (shipped) bills of lading, air way bill, railway receipts, post parcel receipts showing dispatch of goods to a place in Pakistan. However, it is not permissible to establish letter of credit against sea-way bills.

(ii) In case of import of crude oil/ petroleum products by oil refineries/marketing companies, letter of credit/registered contract may include clause providing for payment on the basis of copy of 'Bill of Lading' and provision of 'Letter of Indemnity' by the exporter indemnifying the importer, among others, for any loss/damage caused to the importer due to non-presentation of original 'Bill of Lading'. Nevertheless, Authorized Dealers shall ensure, before making payment for import, that all other required documents have been duly presented and goods have been released to the importer by the shipping company.

(iii) The port of discharge in Pakistan should be specifically mentioned. 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.⁴

(iv) 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 Order. However, in case of import of crude oil / petroleum products by oil refineries /marketing companies, invoices certifying the country of blending instead of country of origin may be accepted, provided the bank is satisfied with the bona fides of the transaction and manages the underlying risks.

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
- (ii) Confidential reports on buyers and sellers.

Authorized Dealers shall 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, Barges, Motor Launch or Truck.

Ordinarily it is not permissible to open letters of credit providing for shipment by means of barges, 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 later 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 barges, 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 import 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) or (ii) above, the Authorized Dealers should refer their cases to the Foreign Exchange Operations Department,

⁴ EPD Circular Letter No. 03 dated April 29, 2004

13. Remittances in Excess of the Amount of Letter of Credit/ Registered Contract.

In cases where the value of documents exceeds the amount of the letter of credit/registered contract due to excess in quantity, the Authorized Dealers may allow remittance of the excess amount subject to the condition that the unit price initially negotiated does not increase and acceptance for the same has been obtained from the importer. Further, Commercial Invoice in respect of the consignment must also reflect the increased quantity which may be subsequently verified by the Authorized Dealer through Goods Declaration once the goods are released.

14. Types of Letters of Credit not permitted.

It is not permissible to open clean and transferable letter of credits. Applications for opening such letters of credit should be referred to the FEOD, SBP (BSC), Karachi with full particulars. However, Authorized Dealers may open time based revolving letters of credit as per the terms and conditions stipulated under Para 9 *ibid*.

15. Prohibition to Open Letters of Credit /Register Contract for Import of certain Commodities or from Certain Countries/ Exporters.

It is not permissible to issue letter of credit/register contract or otherwise facilitate the imports of goods into Pakistan:

- (i) where imports from any specific country or of specified goods are not permissible under the Import Policy Order in vogue.
- (ii) where any country, exporter or the products involved are subject to UN Sanctions.

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

The following 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 relating to Open Account imports 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 regarding imports on Open Account basis.
- (v) In case of imports from ACU member countries, remittances will be effected through ACU Clearing Arrangements except in cases where the beneficiary is resident in other than ACU member countries and the underlying contract requires payment outside ACU Clearing Arrangement.
- (vi)⁵Due to peculiar nature of trade with Afghanistan through land routes, Authorized Dealers are allowed to register contracts of the Pakistani importers and make payments thereagainst as per the

⁵ FE Circular No. 02 dated February 27, 2017

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 share the financial instrument with PSW through EDI or approve the EIF in WeBOC for of the total amount of the contract against which multiple declarations can be cleared 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 EIF in WeBOC or financial instrument in PSW.
- 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) cleared against respective Electronic Import Form in WeBOC or financial instrument in the PSW system.

17. Imports Without Letter of Credit/Registration of the Indent/Proforma Invoice/Order (Open Account Basis).

(i) Imports 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. In terms of the Import Policy Order, importers are permitted to carry out imports without opening of Letters of Credit or registering the indents/proforma invoices or orders with the Authorized Dealers and make remittances there against after receipt of goods in Pakistan⁶.

(ii) ⁷In this regard, Authorized Dealers may allow manufacturing & industrial concerns and commercial Importers to make payments on Open Account basis for imports of spare parts/raw materials only for the ultimate use by the manufacturing / industrial concern. Besides, Authorized Dealers may also allow payments against imports on Open Account basis as per the below detail:

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

(iii) 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.

(iv) In this regard, the following procedure shall be adopted to make payment against goods imported on Open Account basis:

A – Issuance of EIF in WeBOC

- a) An importer shall get the EIF approved from an Authorized Dealer before clearance of goods by Pakistan Customs in WeBOC. The Authorized Dealers shall approve the EIF request upon submission/retention of photocopies of shipping documents (e.g. B/L, AWB, TR, RR, Courier

⁶ FE Circular No. 09 dated September 15, 2017

⁷ 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

Receipt etc.), proforma invoice, commercial invoice etc.

- b) Before approving the EIF, Authorized Dealers are required to perform Customer Due Diligence (CDD)/Know Your Customer (KYC) of the importers in line with the Framework for managing risks of Trade Based Money Laundering and Terrorist Financing issued by SBP.
- c) Authorized Dealers shall ensure that the goods imported into Pakistan are in conformity with the prevailing Import Policy Order.
- d) Authorized Dealers shall ensure that payments against goods imported on Open Account basis are made by the importer within one year 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 value of goods declared on the Goods Declaration Form filed by the importer with Pakistan Customs.
- g) Authorized Dealers shall file 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) In case the importer is unable to make payment of goods imported on Open Account basis within the above stipulated time, the importer through its Authorized Dealer shall approach Foreign Exchange Operations Department, SBP-BSC Head Office, Karachi for extension in time for making the payment or take appropriate action as prescribed under Para 6B(xii) above.

B – Process in case of PSW

- a) The importer shall file declaration in PSW and declare the bank account from where the importer intends to make the payment. Only those importers shall be eligible to file declaration under Open Account who have been permitted by their Authorized Dealers to import under this mode by allowing in their Customer Profile shared with PSW.
- b) Authorized Dealers shall perform post clearance due diligence of the transaction in line with the applicable regulations including the Framework for managing risks of Trade Based Money Laundering and Terrorist Financing issued by SBP.
- c) Authorized Dealers shall ensure that payments against goods imported on Open Account basis are made by the importer within one year from the date of filing of declaration filed on PSW platform for which proper follow up must be made with the importer.
- d) ADs shall verify with the supporting documents that the goods have been released to the importer before making payment. In case of bonded import, Authorized Dealer shall obtain duty paid challan(s)/payment receipt(s) from the importer in due course.
- e) Authorized Dealers must ensure that the payment being made against imported goods is not more than the value of goods declared in the Declaration filed by the importer in PSW.
- f) Authorized Dealers shall share Bank Debit Advice (BDA) with PSW through EDI upon making import payment as per the prescribed procedure and share settlement message against the respective declaration with PSW as per applicable instructions.

- g) In case the importer is unable to make payment of goods imported on Open Account basis within the above stipulated time, the importer through its Authorized Dealer shall approach Foreign Exchange Operations Department, SBP-BSC Head Office, Karachi. The request for extension in time for making the payment should be submitted along with tenable justification, supported by documentary evidence, for not making the payment within the stipulated time.
- (v) In case of exceptional circumstances where Authorized Dealers are unable to fulfill any of the above conditions, they should refer the matter to Foreign Exchange Operations Department (FEOD), SBP-BSC Head Office, Karachi along with supporting documents and cogent justification for seeking exception.

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/registered 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. Further, it is not permissible to reduce the usance period subsequently or effect payments of usance bills prematurely.

19. Imports by Public Sector Enterprises and Government Institutions/ Departments to which Foreign Exchange Allocation is made by the Government.

Public Sector enterprises and Government Institutions/ Departments, which are allocated foreign exchange for their import requirement or the private parties who are allowed to import on behalf of such government institutions/departments 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, SWIFT 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 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 Import Policy Order.

Authorized Dealers may allow remittance of the value of imports made in contravention of the Import Policy if following two conditions are met:

- i. the Federal Government has condoned the contravention and
- ii. the Customs have released the goods.

Such remittance may be allowed subject to submission of required documents as per applicable regulations related to the underlying transactions.

23. Omitted.

24. Collection of Freight on Imports by the Private Sector.

The following procedure will be followed for collection of freight on imports by the private sector:

- (i) The importers desiring to make imports on "Freight to Collect" basis will comply with the relevant instructions issued under Import Policy Order/ by State Bank of Pakistan with respect to imports.
- (ii) The shipping lines/airlines will issue Bills of Lading/Airways Bills in connection with 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 along with 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. Authorized Dealer, after verifying the documents, shall issue a certificate in the prescribed format, 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) The shipping lines/airlines and their agents will not accept freight from importers in Pakistan 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 along with the applications to be made to Authorized Dealers for allowing remittance of surplus freight collections.

25. Collection of Freight on Imports by the Public Sector.

In the case of imports by the public sector on "freight to collect" 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 imports on freight to collect basis made by the Ministry of Defense only subject to post-facto approval. Application for permission to pay freight in Rupees in respect of imports by the Ministry of Defense 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 National Flag Carriers e.g. PNSC Vessels/PIA.

As an exception to the provision of paragraph 25 *ibid*, it will be in order for the national flag carriers such as PNSC and PIA to accept freight in Pak Rupees against imports on FOB basis 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 Public Sector agencies.

27. Omitted.

28. Payments against Imports Exempted from Import Policy.

Authorized Dealers should not allow any remittance against import of certain categories exempted from the Import Policy Order. For example, in transit imports, imports by diplomatic officials in Pakistan, imports in bond, imports of gift parcels up to the exempted limit and imports by private parties for their personal use up to prescribed limits.

29. Omitted.

30. Advance Remittances ⁸.

- (i) Authorized Dealers are allowed to effect import advance payment against irrevocable letters of credit or invoices, up to 100% of the value of letter of credit or invoice, as the case may be.
- (ii) Authorized Dealers shall effect the advance payment against import of goods subject to appropriate due diligence and compliance of Trade Based Money Laundering (TBML) framework, including but not limited to, the following terms and conditions:
 - a) The amount of the import advance payment shall commensurate with the profile of the customers, the quantity and nature of goods being imported, and the pricing trends prevailing in the international/domestic markets.
 - b) Authorized Dealers shall be responsible to ensure that goods are imported within the stipulated time or the funds remitted in advance are repatriated back in a timely manner. Therefore, Authorized Dealers need to take necessary measures to examine the transactions and verify the bona fides and genuineness of the beneficiaries to mitigate the risk of any misuse. For this purpose, Authorized Dealers shall obtain an undertaking from the importer(s) on the prescribed form (Appendix V31) and may seek appropriate collaterals/ guarantees from the customers/beneficiaries in order to safeguard their interests.
 - c) Authorized Dealers shall submit the following reports on advance payments against imports:
 - i. A consolidated statement regarding cases where (a) import has not been effected by the due date, or (b) the amount of advance payment is repatriated for any reason, prior to the due date of import of goods, will be submitted by the Head/Principal Offices of the Authorized Dealers to the Director, Foreign Exchange Operations Department (FEOD), SBP-BSC on the 10th day of following month as per prescribed format (Appendix V-27A).
 - ii. Another statement (Appendix V-27B) containing details of penalty charged, shipments received

⁸ EPD Circular Letter No. 01 dated January 30, 2024

and amounts repatriated, if any, against already reported outstanding import advance payments in V-27A will also be submitted by the given deadline.

- d) In case the goods against advance payment are not imported and/or the funds remitted in advance are not repatriated for any reason within (i) 730 days, in case of plant and machinery or (ii) 120 days, in all other cases, from the date of advance payment, the Authorized Dealers shall:
- i. Recover an interim penalty @0.1% per day for the delayed period, on the outstanding amounts of advance payment and deposit the same on monthly basis, in favor of SBP through RTGS Clearing Account No. 427518.
 - ii. For calculating the interim penalty amount accruing on each day of the delayed period (as per (i) above), the prevailing market exchange rate of that day will be used. The period for recovery of penalty for the delay in import/ repatriation will start from the first day after the lapse of 730 days or 120 days, till the date of import of goods into Pakistan, as evidenced by the Goods Declaration filed by the importer in PSW, or the date of repatriation of funds into Pakistan.
 - iii. Based on the Appendix V-27A and V-27B submitted by the Authorized Dealers, FEOD, SBP-BSC may seek additional information and may file complaints against the importers to Foreign Exchange Adjudication Department (FEAD), SBP-BSC under the Foreign Exchange Regulations Act (FERA), 1947. The FEAD, SBP-BSC will adjudicate the matter and may impose final penalty on the importers as per powers conferred under FERA, 1947. Moreover, appropriate penal action can also be initiated against the Authorized Dealers, in terms of section 23K of FERA, 1947.
- e) The Authorized Dealer should establish a monitoring mechanism to ensure that the importer does not misuse import advance payment and may take appropriate actions against any delinquent importers, including filing of STRs in cases involving TBML, debarring the importer from making any future advance payments, etc.

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. Omitted.

37. Rates of Commission to be charged by Banks.

- (i) Authorized Dealers may recover from the importers 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 reporting on Form 'M'.

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

(a) In respect of cash/reimbursable loans 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: 3/8 % irrespective of the value of the letter of credit.

(iii) The above charges are inclusive of foreign correspondent's 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 applicant's request.

38. Special Features of various Aid, Loans and Credits.

Import under different types of Foreign loan/aid/credits etc. given by international institutions/agencies shall be handled as per the underlying agreements/terms and conditions of such loans/aid/credits.

38A. Asian Clearing Union (ACU)⁹.

(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 settled through the ACU mechanism. This mechanism allows payment in the Asian Monetary Unit (AMU) or the currency of the participating country in which one party to the transaction resides. However, there is no bar to any letter of credit or contract or invoice being denominated in Non-ACU Currency, provided such letter of credit/ contract invariably contains a clause to the effect that payment shall be made in ACU Currency/AMU. Further, the manner in which the currency of the letter of credit/contract will be converted into the currency of actual payment/AMU should also be specified. 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 allowed to open ACU Dollar and ACU Japanese Yen¹⁰ accounts with their correspondents in the ACU member countries. ACU Euro are also included in the ACU Clearing Arrangement¹¹. However, operations in 'ACU Euro' are currently suspended¹². Accordingly, all eligible transactions in Euro are permitted to be settled outside the ACU mechanism until further notice.

b) ACU Dollar, ACU Yen and ACU Euro would be equivalent in value to one US Dollar, one Japanese Yen and one Euro respectively. Accordingly, transactions under ACU Mechanism may be denominated and settled in ACU Dollars (ACUD), ACU Yen (ACUY) and ACU Euro (ACUE). The transactions in ACUD, ACUY and ACUE would be reported by the banks to SBP and settled by SBP separately. Accordingly, separate accounts will be maintained for the settlement of each ACU currency (ACUD, ACUY and ACUE).

c) Further, with a view to encourage ADs to maintain sufficient balances in their accounts to ensure timely payments, the ADs are hereby permitted to pay / receive interest, at their discretion, on these (ACUD, ACUY & ACUE) accounts as per mutually agreed terms and conditions. The balances of ACUD, ACUY & ACUE accounts together with other FCY / Nostro accounts would however be

⁹ FE Circular No. 46 dated November 15, 1995

¹⁰ FE Circular No. 07 dated December 23, 2019

¹¹ FE Circular No. 11 dated December 19, 2008

¹² EPD Circular Letter No. 10 dated July 28, 2016

subject to the overall exposure limits of ADs.

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

(iii) Procedure for settlement through ACU Mechanism.

- a) 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', 'ACU Yen' or 'ACU Euro'.
- b) When an Authorized Dealer needs to fund its ACUD/ACUY/ACUE Nostro account with its correspondent bank in another participating country, it will surrender equivalent amount of US Dollar/Japanese Yen/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 US Dollar/Japanese Yen/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/Japanese Yen/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 US Dollar /Yen/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 US Dollar/Japanese Yen/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/Japanese Yen/Euro amount to the bank concerned in Pakistan.

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

Imports under foreign currency loans and credits negotiated by the Government of Pakistan with the international institutions and other agencies will be made as per the underlying agreement for such loans/credits.

40. Omitted.

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 lodgment 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 Rupee Funds with the State Bank in respect of Foreign Non-Project Commodity Loans.

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 in respect of Foreign Non- Project Commodity Loans.

(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) Authorized Dealers may execute three way merchanting transactions on behalf of firms/ companies functioning in Pakistan in respect of all goods and commodities tradable as per Import and Export Policy Orders under following modes:

- a) Back-to-back letters of credit
- b) Documentary collection/ registration of contract
- c) Advance payment

However, in case of documentary collection/registration of contract and advance payment, payment must be received by the local firm before making payment to the ultimate exporter/seller.

(ii) Authorized Dealers are permitted to open letter of credit in favour of third country exporter either against an irrevocable letter of credit or advance remittance in convertible currency received from the ultimate importer in favor of merchants in Pakistan, subject to the following conditions:

- a) The amount of foreign exchange representing the price differential including commission will be converted into Pak rupees at the conclusion of transaction.
- b) No commission or any other claim of whatsoever nature will be allowed to be remitted from Pakistan.
- c) No credit line such as export finance etc. will be available.
- d) Goods will be shipped directly from the country of supply to the country of import.
- e) Authorized Dealers are required to perform Enhanced Due Diligence (EDD)/Know Your Customer (KYC) of the intermediary/ merchant, being their account holders/customers, as per applicable instructions. The Authorized Dealers shall take all possible measures to verify the bona fides of the parties involved in three way merchanting trade and genuineness of the transaction in line with the prescribed Framework for Managing Risks of TBML & TF¹³.
- f) 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 supplier and (ii) conversion into Pakistan rupees of the amount left out after making payment to the third country supplier.

(iii) 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:

- a) The account will be fed exclusively through remittances emanating from the realization of proceeds by the ultimate buyer against supply of third country goods.
- b) The account will be kept outside the scope of Foreign Currency Accounts Scheme as embodied in Chapter 6 of this Manual. Authorized Dealers can hold such foreign currency abroad in addition to the normal balances held abroad.
- c) Interest accruing on the balances held in the account will be converted into and paid in Pak rupees.

(iv) After conclusion of final leg of the merchanting trade transaction, 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 Foreign Exchange Operations Department (FEOD), SBP-BSC, Head Office, Karachi. The reporting of inward and outward remittances would be as indicated in the format appearing at Appendix V-35.

¹³ FE Circular No. 04 dated October 14, 2019