February 10, 2021

Background Note

Revised Policy of Equity Investment Abroad by Residents (Firms/Companies & individuals)

Resident Pakistanis are allowed to make investments abroad and Chapter 20 (para 13) of the Foreign Exchange Manual of State Bank of Pakistan (SBP) describes the various procedures to be adopted by authorized commercial banks and the conditions to be met by Resident Pakistani investors. There are several kinds of investments abroad by Resident Pakistanis that are helpful to boost country's exports and attract foreign investment in the country. To facilitate such investments SBP recently took the initiative of reviewing its regulations in consultation with different stakeholders, and revised in its policy related to equity investment abroad by Resident Pakistani individuals, firms and companies. In terms of the revised policy, the equity investment abroad transactions have been divided into four categories (A, B, C & D) bringing more clarity in terms of classification of investments and its related procedures. Further, the equity investment abroad could now be made without the need of having any approval from State Bank of Pakistan, for transactions covered under Category A, B and D of the new policy. However, rest of the transactions will continue to be dealt as per existing policy under Category-C. The procedure for investment abroad has also been simplified for transactions under Categories A, B and D. The detail of categories of transactions under the revised policy and comparison of applicable regulations is as under:

Category	Particulars	Existing regulation	Revised Regulations
A	**Establishment of subsidiary/ branch office abroad by export oriented companies for promoting exports**	Under the existing policy all firms/companies were required to seek prior approval of SBP to establish representative office/ subsidiary abroad. Similarly, remittance of annual budgeted expenses pertaining to representative office, established abroad, also required prior SBP approval.	Export oriented companies will be allowed to establish their subsidiaries or branch offices for promoting their exports without the need of obtaining any approval from the SBP and the designated commercial banks will be allowed to entertain the requests by such companies subject to meeting the following conditions: 1. Banks are allowed to remit funds abroad on behalf of export oriented companies, up to 10% of their average annual export earnings of last three calendar years or USD 100,000 whichever is higher. 2. Banks have also been allowed to remit USD 30,000/-, from 2nd year onward, to meet the annual budgeted expenses of representative office established/acquired abroad with an annual increase of 10% in expenses, subject to a valid justification.

B	**Establishment of Holding Company abroad by residents for raising capital from abroad**	Although under the existing policy a holding company could be established abroad, however, there was no specific policy to allow establishment of holding company abroad for the purpose of raising foreign direct investment in Pakistan.	Resident companies, especially startup firms, will be allowed to establish their holding companies abroad without the need of obtaining any approval from the SBP. The designated commercial banks are now allowed to entertain the requests by such companies subject to meeting the following conditions: 1. Resident companies, especially startup firms already operating in Pakistan for not more than 7 years, are allowed to form a holding company abroad for raising capital from abroad. 2. Banks have been allowed to remit up to USD 10,000, for this purpose, subject to certain terms and conditions. 3. The shareholders of resident company can swap shares to mirror the shareholding of local company in the holding company. The holding company is required to bring majority of funds raised from abroad in Pakistan until the certain thresholds are met.
C	**Investment abroad by resident companies/ firms for expansion of Business**	In terms of existing policy, the firms/ companies have to seek prior approval of SBP for making equity investment abroad, subject fulfillment of defined criteria.	The existing policy has been made part of new policy as Category-C. For transactions not covered under other categories of investment abroad i.e. A, B & D, residents would need to approach SBP for approval through their banks as per existing policy.

D	**Investment abroad by Resident Individuals**	Under existing policy, the resident individuals could invest in listed securities abroad with prior permission from SBP. Similarly, resident employees of foreign subsidiaries could only participate in share option plan of their parent company with prior approval of SBP. Further, no specific provision was available in the existing policy for acquiring shares of a company abroad against efforts and services (sweat equity).	Resident individuals will be allowed to make investments in listed securities abroad without the need of obtaining any approval from the SBP. The authorized commercial banks will be allowed to complete requests by export companies subject to meeting the following conditions: 1. Banks have been allowed to remit a maximum amount of USD 25,000, during a calendar year, on behalf of resident individuals to acquire shares of listed companies abroad subject to condition that their shareholding shall not exceed 1% of shares of the investee company at any time. 2. Banks have been allowed to remit USD 50,000, during a calendar year, on behalf of resident employees of subsidiaries of foreign companies in Pakistan for participating in the share option plans of parent companies subject to condition that stake of an individual employee in parent company shall not exceed 3% shareholding of investee company. 3. Resident individuals can acquire the shares of companies abroad against their efforts and services (sweat equity), without any monetary consideration subject to condition that their maximum shareholding shall not exceed 20% of shares of the investee company at any time.