

4 Foreign Exchange Operations

SBPBSC facilitates foreign exchange related matters in light of the Foreign Exchange Regulation Act (FERA), Foreign Exchange Manual and instructions of Exchange Policy Department (EPD) of SBP. Cases related to export overdue, payment of subsidy under various government schemes and commercial / private outward remittances are processed by SBP BSC.

The organization's sphere has expanded with attaining delegation of powers to levy penalties under section 23K of FERA, 1947 along with its leading role in offsite monitoring of trade transactions of banks. In order to ensure provision of efficient services, SBPBSC has laid down extensive emphasis on enhancing its operational efficiency by automation of processes particularly through implementation of Knowledge Management (KM) project.

4.1 Overview

SBP BSC Foreign Exchange Operations strive to ensure:

- i) timely repatriation of export proceeds;
- ii) approval of foreign exchange payments as per applicable regulations;
- iii) vigilant off-site monitoring of trade related transactions;
- iv) effective implementation of all Government subsidy schemes in accordance with applicable Statutory Regulatory Orders (SROs); and
- v) initiating legal actions against delinquent exporters who fail to repatriate export proceeds.

SBP BSC also provides support services to Development Finance Group (DFG) of SBP in ensuring compliance with instructions related to Export Finance Scheme - Part II. It also facilitates the export of currencies other than USD and import of USD through the joint booths of SBP and Pakistan Customs established at airports of Islamabad, Lahore, Peshawar and Karachi. It also coordinates with stakeholders including Pakistan Customs, FIA, NAB, etc. to ensure effective management of the Country's foreign exchange. The performance highlights of SBP BSC FX operations during the FY19 are mentioned in **Box 4.1**.

Box 4.1: Performance Highlights for FY19

- FX operation is the first function in SBP BSC that is implementing Automated Case Management System under Knowledge Management project.
- Enforced repatriation of overdue export proceeds amounting to USD 841.5 million without adjudication as compared to USD 887 million in FY18
- Disbursed Rs. 62.4 billion under various subsidy schemes of Government (as compared to Rs. 50 billion in FY18)
- Approved 14,056 cases of commercial, private and trade related remittances
- Realigned functions carried out by EPD and FEOD by bringing clarity of roles and eliminating overlapping in functions
- Developed excel based EE/EF verification model and verified 706,978 entries in FY19 as compared to 643,404 in FY18. The turnaround time was also reduced significantly from 19 days to 7.5 days.
- Devised operating mechanism for imposing penalties under FERA 1947
- Completed first phase of Data Universe project i.e. integration of data from ITRS and T-24 on a platform
- Restructured and standardized the quarterly offsite FX monitoring report
- Identified and referred 26 fake export cases worth Rs. 6.4 million to Customs Adjudication
- Arranged capacity building training programs for ADs and FEO officers

4.2 Developmental Initiatives

SBP BSC actively took various developmental initiatives during FY19 to bring efficiency and improvements in its operational processes, keeping in view the changing dynamics in the country. In line with the SBP's Vision 2020, SBP BSC envisioned an Automated Case Management System under the umbrella of Knowledge Management (KM) project to improve efficiency and control environment. The program envisaged improving work environment of the Bank by capturing, storing and sharing knowledge, facilitating easy access to documents and reducing content search time by designing, building and managing a centralized repository of information and knowledge. Foreign Exchange Operations of SBP BSC was the first function to implement Automated Case Management system wherein all the Authorized Dealers started submitting cases via an online portal under parallel system.

Further, the quantum of workload has increased substantially over past few years owing to the increase in volume of international trade and scope of monitoring and verification activities. This necessitated a platform that provided aggregation of transactional data. Therefore, a project of 'Data Universe' was actively pursued during the year, which involved integration of data from Web-Based One Custom (WeBOC), International Transaction Reporting System (ITRS), Export Overdue Reporting System (EORS) and T-24 to get a holistic view of a stakeholder for monitoring. The first phase of the project has been completed during the year, wherein data from ITRS and T-24 was successfully integrated.

SBP BSC played a vital role in enforcement of section 23K of the FERA 1947 wherein SBP delegated to SBP BSC its powers to impose penalty on Authorized Dealers (ADs) for violation of FE regulations. A comprehensive operating mechanism including penalty scale was devised in consultation with Offsite Supervision and Enforcement Department (OSSED), SBP. Thereafter, relevant regulatory action has been initiated against ADs for violating the provisions of FE regulations.

During FY19, the reporting format of quarterly offsite FE monitoring report was reviewed and restructured with an aim to enhance its scope and bring standardization in its layout. New areas of trade were explored for offsite monitoring using the statistical and other data analysis techniques. Moreover, SBP BSC keenly contributed in revision of FE policy / regulations by sharing its practical insights and findings with EPD, SBP from time to time.

Various trainings were also arranged in order to improve the skill set of staff involved in FE operations across the Bank including the staff of Foreign Exchange Operations Units (FEOU) at Field Offices. Furthermore, trainings of Authorized Dealers (ADs) were also organized to equip them with the requirement of current FE regime of Pakistan.

4.3 Monitoring & Enforcement

With the fast pace of changing dynamics in the FE regime and trade trends worldwide, SBP BSC remained vigilant in off-site monitoring of FE-related transactions with an aim to identify fraudulent transactions and those deviating from the FE Rules and Regulations. Tireless efforts were made in following-up with the delinquent exporters with respect to export overdue cases to ensure repatriation of export proceeds. Similarly, outflow of foreign exchange through importers, shipping companies, airlines and freight forwarders was also monitored to ensure genuine utilization of foreign exchange. The key findings during the period are as follows:

4.3.1 Monitoring of Export Receipts

ADs reported 49,996 export overdue cases amounting to USD 1,073.1 million in FY19 as compared to 58,056 cases of USD 1,225.5 million in FY18. The drop in export overdue cases, inter alia, attributed to better controls put in place by SBP BSC and ADs. SBP BSC adopted a proactive approach with an objective to recover the export overdue cases expeditiously without resorting to litigation process. The rigorous efforts resulted into repatriation of USD 841.5 million as compared to USD 887 million in FY18. Further, various meetings were also conducted during the period with different stakeholders including Customs, ADs, shipping companies, and exporters etc. to ensure repatriation of export proceeds.

	FY18	FY19	Change	Change (%)
Export overdue cases (No.)	58,056	49,996	(8,060)	-13.9%
Export overdue cases (USD in millions)	1,225.5	1,073.1	(152.4)	-12.4%
Export proceeds repatriated (USD in millions)	887.0	841.5	(45.5)	-5.1%

During the FY19, FEOD identified 89,946 Export Forms (EFE) valuing USD 2.9 billion which were neither reported as realized in WeBOC nor as overdue despite the expiry of due dates as compared to 161,799 EFes in FY18. This delinquency causes understatement of export overdue position. Subsequently, SBP BSC ensured marking of realization against 75,790 EFes (105,201 EFes in FY18), valuing USD 2.7 billion in WeBOC and reporting of 14,156 EFes (42,874 EFes in FY18), valuing USD 244.4 million in Export Overdue Reporting System (EORS) by the ADs.

Further, the authenticity of more than 37,000 manual E-Forms was verified during the FY19. A total of 26 fake E-forms valuing USD 6.4 million were also identified and referred to Collector of Customs (Adjudication).

During the period, the verification and scrutiny process of EE-1/EF-1 Statements was successfully automated through an excel based model leading to significant reduction in time and cost of HR involved therein. A total of 706,978 entries were verified during the year as compared to 643,404 in FY18. Additionally, the average turnaround time reduced from 19 days to 7.5 days besides increasing efficiency and accuracy. Further, monitoring of transactional data in ITRS enabled identification of more than 23,000 discrepancies which were taken up with the ADs for rectification to ensure completeness and accuracy of the data as compared to around 38,000 discrepancies in FY18. A total of 7,521 requests of revisions in ITRS were processed during FY19.

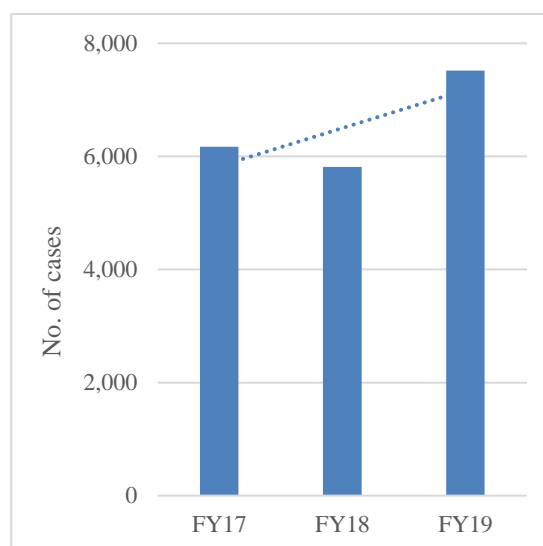


Figure 4.1: ITRS Revisions

4.3.2 Monitoring of Import Payments

In line with the prevalent FE regime, which requires importers to either import goods or repatriate advance payment within 120 days from the date of remittance, the Department strictly monitored these advance payments. The penalties amounting to Rs 266 million were recovered in FY19 compared to Rs 102 million in FY18 on account of failure to import goods against advance payment.

During the off-site monitoring of import payments, SBP BSC identified instances of large scale over-invoicing of Solar Photo Voltaic Panels imported from China. In-depth analysis of the data revealed that 112 delinquent importers remitted excess payments of approximately USD 318.8 million under the guise of importing Solar Panels from China. Accordingly, show cause notices were issued to importers and ADs.

4.4 Complaint & Litigation

Complaint & Litigation function's focus remained on litigation/prosecution of record number of complaints lodged last year in FEA court. Consequently, through effective pleading & prosecution at FEA Courts, 7,456 cases got decided in FY19 as compared to 5,857 cases in FY18. Besides, 11,261 complaints in FY19 were lodged against delinquent exporters, who failed to repatriate export proceeds on time as compared to 13,420 cases in FY18. In order to ensure efficient disposal of the cases, FEA courts were also facilitated through intimating the realization status of more than 8,000 cases lodged in the courts.

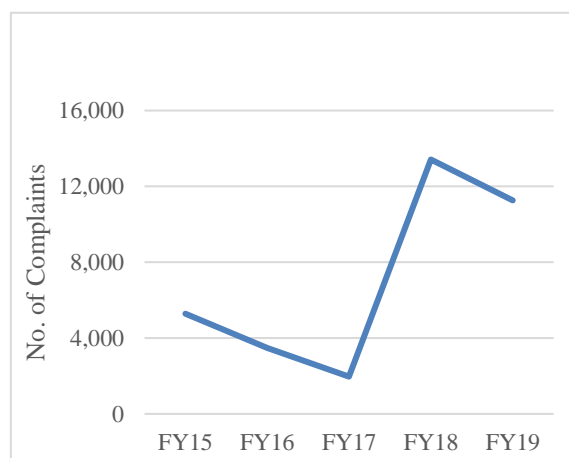


Figure 4.2: Complaints lodged in FEA Courts

SBP BSC defended and pleaded all 29 appeals in Foreign Exchange Regulation Appellate Board (FERAB) without hiring external legal counsel and successfully defended 23 appeals which were decided in favor of SBP BSC, whereas the judgments on remaining 6 appeals are pending. The decisions of said appeals at Appellate Board resulted, for the first time, in repatriation of USD 42,535 as well as recovery of fine amounting to Rs 3 million. SBP BSC also prepared comprehensive and detailed counter-reply of 25 cases in High Courts and with Ombudsman in consultation with Legal Services Department (LSD), SBP and were submitted in courts through different external legal counsels.

4.5 Management of Government Schemes

SBP BSC implements all Government subsidy schemes like DDT, DLTL (Textile & Non-Textile), Sugar, Wheat, etc. as per the SROs/notifications issued by different ministries of Federal and Provincial Governments from time to time. The nature, criteria and operational mechanism varies from scheme to scheme. The aim of these subsidy schemes is to support exports and industrial growth with the ultimate objective of promoting overall economic development of the Country. A total of Rs. 62.4 billion was disbursed in FY19 as compared to Rs. 50 billion in FY18.

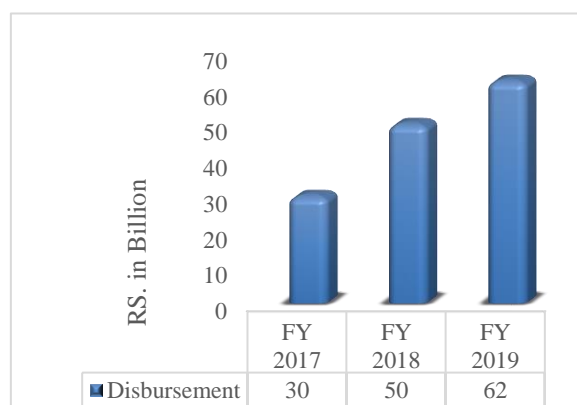


Figure 4.3: Year-wise disbursements of Govt. Subsidies Schemes

The scheme-wise disbursement made during the FY19 is illustrated in **Figure 4.4** and **4.5**.

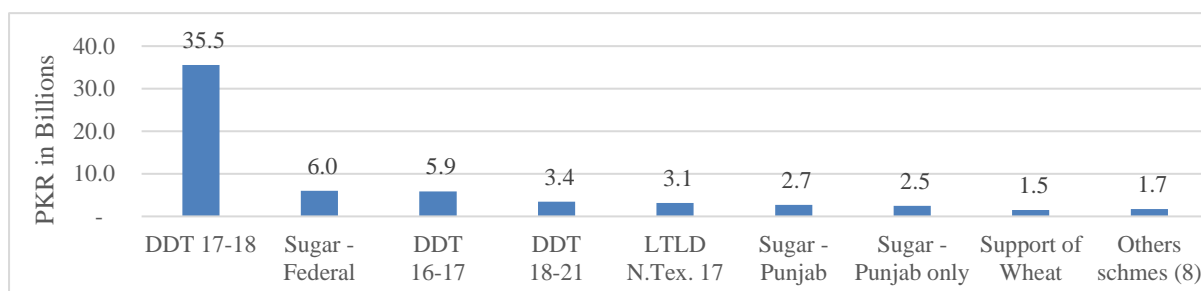


Figure 4.4: Govt. Subsidy Scheme-wise disbursed amounts

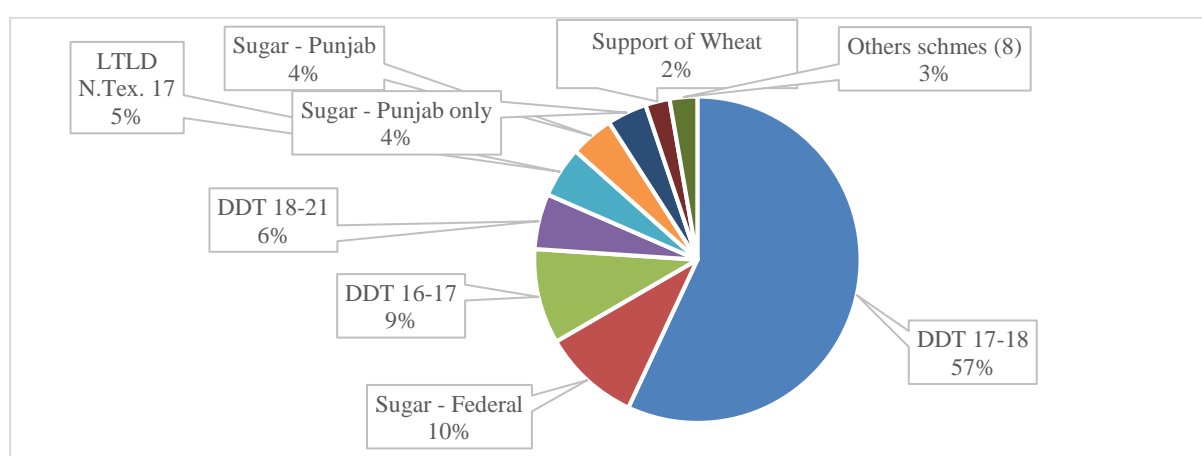


Figure 4.5: Govt. Subsidy Scheme-wise disbursements in percentage

Further, during FY19, sixteen Government subsidy schemes were administered by the Department including two new schemes, for which comprehensive guidelines and circulars were drafted by the Department.

4.6 Commercial, Private and Trade Remittances

With the changing trends and dynamics of the economy along with external factors like placement on the Financial Action Task Force’s (FATF) grey list, the scope of SBPBCS’s examination has shifted to a critical risk based assessment. The inward and outward FX transactions are now being scrutinized with wide-ranging perspective of combating money laundering. The cases are comprehensively analyzed from data reported by banks in ITRS and WeBOC. During FY19, 14,056 cases of commercial, private and trade related remittances were processed and approved as compared to more than 19,000 in FY18 due to restriction placed on import on open account.

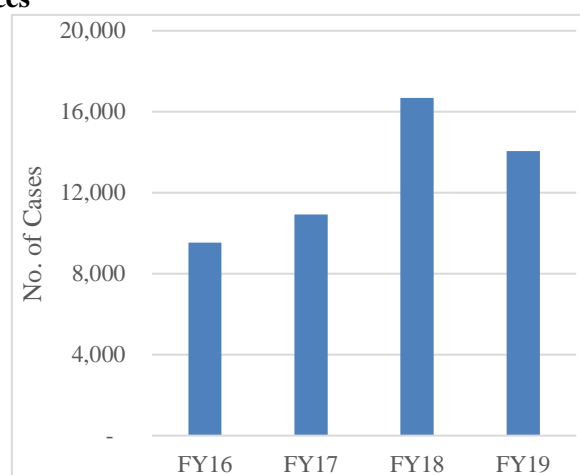


Figure 4.6: Year-wise Trade related external remittance cases processed

During the period, 56 cases of commercial outward remittances valuing USD 12 million (approx.) were declined to encourage utilization of locally available services. Further, significant reduction was observed in the turnaround time of processing the cases owing to the enhanced reinforcement and sensitizations of ADs to carry out a thorough due diligence before submitting the requests to SBP BSC.

4.7 Maintenance of FE allocation

SBP BSC also maintains the record of foreign exchange allocated by Ministry of Finance to different Government departments for a given financial year and issues permits against these. During FY19, 11,418 approval / verification requests received from various Government departments were processed. Further, other matters relating to concerned Government departments were also coordinated during the year under review.

4.8 Import and Export of Foreign Currencies through Airport Booths

SBP BSC has setup its booths at four major airports of the Country (i.e. Karachi, Lahore, Islamabad and Peshawar) in order to facilitate exchange companies in exporting permissible foreign currencies other than USD and importing of USD equivalent. The staff of SBP BSC deployed at the Booths consolidates the figures of import and export of foreign currencies for onward sharing with OSED, SBP. The matters pertaining to foreign currency imports and exports were coordinated at all four airports by the deployed staff throughout the year under review, while ensuring adherence to the applicable FE regulations. The deployed staff was also rotated during the period to ensure objectivity in operations of the Booths.

4.9 Establishment of Facilitation Desk

SBP BSC has established a Facilitation Desk in order to facilitate the external stakeholders in cases of commercial remittances and other FE related issues. The establishment of the facilitation desk proved to be helpful in timely resolution of queries in a well-directed manner. Around 300 queries were handled by the Desk since its establishment in March 2019.

4.10 Future Outlook

SBP BSC will strive to enhance operational efficiency in automation of processes, re-engineering of redundant procedures / practices and improving workforce capacity. SBP BSC's lead role in the project of Knowledge Management will manifest realization of the vision of SBP BSC. The implementation of KM will be a paradigm shift in the entire banking industry as it will automate the processes and functions performed at SBP BSC and will lead to a paperless environment.

With the rapid changes in economic conditions of the Country and FATF's emphasis on effective anti-money laundering and terrorist financing practices, SBP BSC plans to broaden its spectrum of monitoring activities to align with economic conditions and mitigate the evolving risks in foreign exchange business. The Project of 'Data Universe' was partially completed during FY19 which has integrated the data from ITRS and T-24 into a single platform enabling a holistic outlook of stakeholders for monitoring. The data from WeBOC and EORS will also be integrated in the application in the next phase of the project. SBP BSC is in the process of establishing Electronic Data Interchange (EDI) with Customs. Upon implementation, it will enhance the capacity of SBP BSC to monitor FX operations relating to trade manifold. SBP BSC is striving to transform its role from transaction approval and sanction to off-site monitoring of FE related transactions.

Initiation of action against the delinquent ADs under FERA, 1947 is expected to bring further discipline in the banking industry. New exercises for monitoring of foreign exchange transactions are

planned to be initiated to ensure meticulous compliance with the Rules and Regulations of the prevailing FX regime. Any violation will be strictly penalized in accordance with the approved penalty framework.

In order to enhance technical capacity of officers at SBP BSC and relevant staff of ADs, it has planned to continue conducting Foreign Trade Certification Program by incorporating the current regulatory concerns especially related to Anti-Money Laundering (AML) / Countering Financing of Terrorism (CFT).