

4 Foreign Exchange Operations

BSC is mandated to effectively manage operational aspects relating to foreign exchange under the jurisdiction of FERA, Foreign Exchange Manual and instructions of EPD- SBP, with an aim to safeguard the country's foreign exchange reserves as well as to ensure facilitation of stakeholders through a multitude of initiatives.

4.1 Overview

BSC Ordinance, 2001 mandates BSC to perform operational work relating to foreign exchange. BSC performs a pivotal role to ensure timely repatriation of export proceeds, approve foreign exchange payments as per applicable regulations, and implement government duty drawback schemes in accordance with applicable SROs. BSC is also responsible to initiate legal actions against delinquent exporters who fail to repatriate export proceeds, monitor trade related transactions and levy penalties against regulatory violations under section 23K of FERA, 1947 in coordination with SBP. Moreover, BSC facilitates the export of currencies other than US Dollars through the joint booths of SBP and Pakistan Customs and verifies exporters' performance required for eligibility under EFS - Part II.

4.2 Key Stakeholders

- GoP through various ministries
- Government departments and Armed Forces
- Importers & Exporters
- Exchange Companies
- Banks / ADs
- Field Offices, BSC
- Shipping Agencies & Freight Forwarders
- FEA Courts
- EPD, SBP
- Statistics & Data Warehouse Department, SBP
- Domestic Markets & Monetary Management Department, SBP

4.3 Key Performance Highlights during the Year

Box 4.1: Key Performance Highlights during FY21

- Completed End-to-End digitalization of FX related case submission process from customers to banks and from banks to BSC under the KM Program
- Addressed 43,520 FX related cases received from banks through the RAS
- Ensured repatriation of overdue export proceeds amounting to USD 1,266.6 million in FY21 without adjudication as compared to USD 928.7 million in FY20
- Disbursed Rs. 18.1 billion under Government's Textile, Non-Textile, and other duty drawback schemes
- Processed 89,746 instances of violations under Section 23K of the FERA 1947 resulting in total penalty of Rs. 222.7 million on 24 banks
- Processed 11,890 cases of commercial, private, and trade related remittances
- Verified 770,579 entries under EE / EF Statements in FY21 as compared to 684,147 in FY20
- Filed eight STRs on detection of suspicious activities during off-site monitoring
- Identified and referred 72 cases of tampered Form 'E' valuing USD 3 million to respective Collector of Customs
- Recovered duty drawback of Rs. 58 million from exporters after identification of ineligible claims along with penalty of Rs. 15.9 million from relevant banks
- Prepared 'Business Process Handbook' wherein all instructions governing FX operations at BSC were compiled

4.4 Operational Performance

4.4.1 Management of Government Schemes

BSC continued to play its pivotal role in implementation of all government duty drawback schemes such as DDT, LTLD for textile and non-textile, sugar, wheat etc. as per the SROs / notifications issued by different ministries of federal and provincial governments from time to time. The primary objective of these schemes is to support exports and industrial growth for promoting overall economic development of the country.

A total of Rs. 18.1 billion was disbursed to exporters against 147,331 claims under DDT, LTLD, and other schemes pertaining to Textile, Non-Textile, Sugar, and Wheat during FY21 as compared to Rs. 54.7 billion in FY20 (Fig 4.1). Out of Rs. 18.1 billion, Rs. 8.0 billion was released by Ministry of Commerce & Textile on June 30, 2021, which was disbursed by BSC on the same day and unutilized balance was surrendered by day-end.

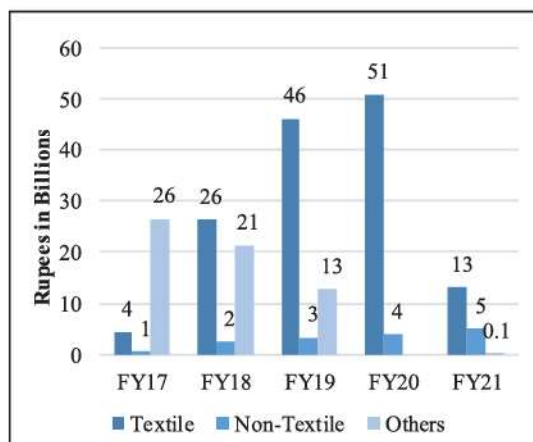


Fig 4.1: Disbursements under subsidy schemes

4.4.2 Commercial, Private and Trade Remittances

Another key function performed by BSC related to FX regime includes processing of commercial, private, and trade remittance requests with due diligence and scrutiny. During FY21, BSC enhanced scrutiny criteria by adopting risk based approach in view of AML & CFT threats and vulnerabilities to include various risk factors for case processing and to enable authorization of authentic cases only. During the year under review, BSC processed 11,890 remittance cases as compared to 12,908 cases in FY20. This decline of 7.9 percent is attributed to delegation of case processing tasks to banks up to USD 10,000 and acknowledgement of service level agreements instead of case-to-case processing.

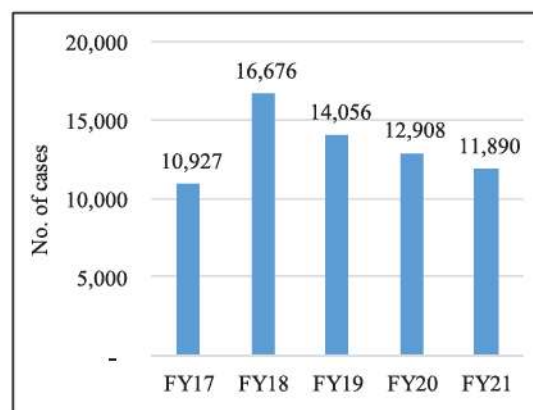


Fig 4.2: Cases of remittances processed

4.4.3 Off-Site Monitoring

BSC is entrusted with task of identification and monitoring of fraudulent transactions and delinquent stakeholders. During FY21, quarterly 'Forex Monitoring Reports' were prepared based on diligent monitoring exercises and critical analysis in close coordination with relevant departments of SBP. Similarly, vigorous monitoring of exports resulted in recovery of overdue export proceeds expeditiously without resorting to litigation process. These concentrated efforts resulted in 36.4 percent increase in repatriation of overdue export proceeds prior to initiation of adjudication proceedings. The statistics are summarized in table below. (Table 4.1)

	FY20	FY21	Change	Change (%)
Export overdue cases (No.)	49,331	48,077	(1,254)	-2.5%
Export overdue cases (USD in millions)	1,353.5	1,364.1	10.6	0.8%
Export proceeds repatriated (USD in millions)	928.7	1,266.6	337.9	36.4%

* Reported by banks during FY20 and FY21

During FY21, monitoring of export overdue cases also led to identification of 56,447 EFE / export forms valuing USD 1.78 billion that were neither reported as realized in WeBOC nor reported as overdue despite the expiry of due dates as compared to 45,532 EFEs in FY20. This delinquency caused understatement of export overdue position, which was subsequently discussed with concerned stakeholders and as a result, 49,633 EFEs valuing USD 1.68 billion were regularized (Fig 4.3). Appropriate actions were also taken for the remaining cases accordingly.

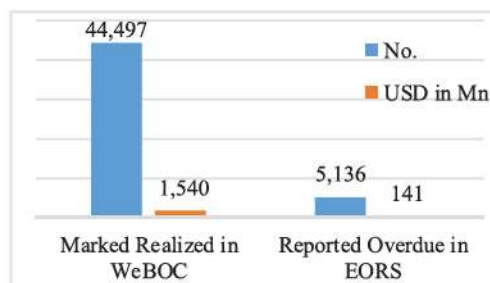


Fig 4.3: Monitoring of WeBOC & EORS

Further, authenticity of more than 13,800 manual E-Forms was confirmed during the year under review. A total of 72 tempered manual E-Forms valuing USD 3 million were also identified and referred to respective Collector of Customs for action under Customs Act 1969. Additionally, BSC also reviewed the eligibility and authenticity of export finance claims by conducting verification and scrutiny process of EE-1 and EF-1 Statements through a system-based module. Resultantly, 770,579 entries in FY21 as compared to 684,147 in FY20 were verified and based on that export performance was calculated and limits were allocated under EFS Part II.

Moreover, BSC processed a total of 5,786 requests for revision in ITRS, received from banks as compared to 5,130 in FY20 (Fig 4.4). Besides, monitoring of transactional data in ITRS enabled identification of more than 4,800 discrepancies, which were taken up with the concerned ADs for rectification while ensuring completeness and accuracy of the data. ITRS discrepancies continued to decline after implementation of Balance of Payment Manual-6, which may be attributed to the optimum support provided by BSC to concerned ADs.

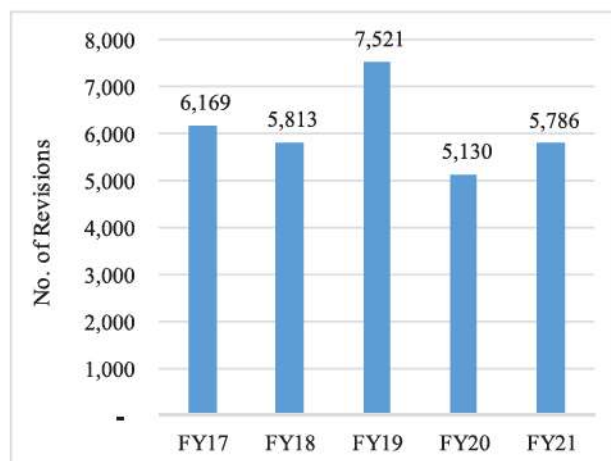


Fig 4.4: ITRS Revisions

4.4.4 Enforcement under Section 23K of FERA

FERA, 1947 was amended through insertion of Section 23K, which empowered SBP to exercise powers of levying penalty on all regulatory FX violations of ADs, which was subsequently delegated to BSC. During FY21, around 89,746 instances of violations were processed under Section 23K, which entailed issuing of show cause notices and providing hearing opportunity to concerned banks. As a result, collectively BSC and SBP levied a total penalty of Rs. 222.7 million on 24 banks.

4.4.5 Maintenance of FX Allocation & Facilitation Desk

BSC maintains and issues permits for utilization of foreign exchange allocated by Ministry of Finance to different government departments. During FY21, a total of 9,890 approval / verification requests received from various government departments were processed besides coordination on ancillary matters.

Further, a Facilitation Desk was established to assist the external stakeholders in cases of commercial remittances and other FX related issues. The Desk handled more than 500 queries received through emails and phone calls during the year.

4.4.6 Complaints and Litigation

BSC effectively handled the litigation / prosecution process and focused on pleading record number of complaints lodged before AOs at FEA Courts. Effective pleading and prosecution before AOs lead to decision of 11,711 cases resulting in repatriation of USD 182.4 million as export proceeds. AOs were kept apprised regarding realization status of more than 14,000 cases to ensure smooth disposal of cases. Further, 13,569 complaints were lodged in FY21 against delinquent exporters, who failed to repatriate export proceeds within stipulated time.

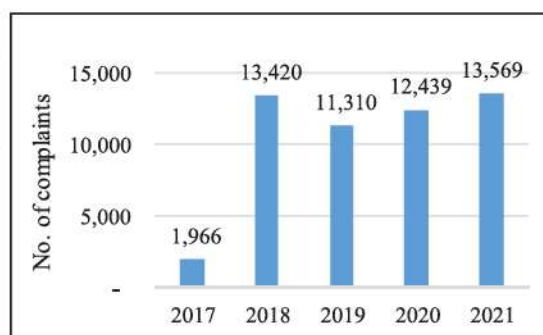


Fig 4.5: Complaints referred for adjudication

In addition, BSC successfully defended and pleaded 29 out of 38 appeals at Foreign Exchange Regulation Appellate Board without hiring external legal counsel since 2018, whereas the remaining appeals are being pursued. Moreover, BSC also prepared comprehensive counter-replies of 18 cases in High Courts across the country in consultation with LSD and submitted the same in Courts. Besides, BSC had also successfully pleaded a petition in Sindh High Court in its favor and another five constitution petitions in Sindh High Court are being pleaded and prosecuted.

4.5 Developmental Initiatives

4.5.1 End-to-End Digitalization of FX Portal

In order to facilitate businesses, BSC successfully implemented the second phase of its KM Project for End-to-End digitalization of FX related case submission from customers to banks. BSC had effectually launched RAS for submission of FX related cases from banks to BSC last year, which provided the building stone for second phase of the KM Project. With BSC's fully extended support, 27 banks were able to successfully develop their portals for customers as on June 30th 2021.

With implementation of RAS, banks were able to capture, retain, and share knowledge in a centralized repository, thereby, allowing easy access to information and documents with advanced content search capability. The case management system enabled remote access and timely decisions for FX cases during challenging times of COVID-19. Besides, due to automation, physical record has substantially reduced while saving time, courier, and storage costs for the organization.

4.5.2 Electronic Data Interchange

In order to enable the availability of shipment data of EFEs and Electronic Import Forms through an automated daily feed from WeBOC, an EDI was successfully established between Pakistan Customs and SBP during FY21 after finalization of data security protocols. Data received through daily feeds shall facilitate various foreign exchange operations including verification and monitoring of FX transactions.

4.5.3 End-to-End Automation of Export Earning and Export Finance Verification Process

During the year under review, BSC undertook end-to-end automation of EE / EF statement verification process which will enable banks to perform system-based verification of export performance statements under EFS. The initiative will completely automate the laborious and time-intensive function of EE / EF Verification at BSC, thereby reducing HR requirements and turnaround time significantly. The system is presently at advanced stages of its completion.

4.5.4 Online Portal for Government Schemes

BSC is proactively facilitating the development of 'OPGS'. User Acceptance Testing (UAT) of system was successfully completed and the implementation is expected in due course in coordination with Ministry of Commerce (MoC). The End-to-End development will significantly reduce processing time, cost per case, HR requirements, duplication of work, and human errors due to manual interventions.

4.5.5 Policy Revisions

BSC significantly contributed towards revision of Foreign Exchange policy / regulations by sharing its practical and operational insights, supporting comments, and findings with SBP from time to time.

4.5.6 Other Developments

'AML Monitoring Program for FX Transactions' was also devised during FY21, which enabled risk based monitoring of FX transactions, reported by banks, through customizable risk criteria. Furthermore, 'Business Process Handbook' was issued wherein all the instructions governing foreign exchange operations at BSC were consolidated and updated in a single document, which will help officials in efficient processing of cases and further strengthen internal controls / compliance mechanism at BSC.

4.6 Future Outlook

In the future, initiatives such as OPGS and automation of EE / EF Statement verification are expected to enrich operational efficiency through automation and process re-engineering, thereby enhancing off-site monitoring role of BSC. Access to FMU's GoAML portal and Custom's data through EDI is expected to pave way for BSC's off-site monitoring team to detect suspicious / unusual transaction patterns in the FX operations and address the evolving risks in FX regime.

Further, successful pursuit for the End-to-End digitalization of FX case submission from customers to banks under the second phase of KM Project is expected to improve the dynamics of the FX regime manifold in the near future through enhanced efficiency, transparency, and time bound decision making in a paperless environment.

Moreover, the continuity of effective enforcement actions on regulatory violations of ADs under Section 23K of FERA 1947 will bring further discipline in FX operations of banks, while keeping the flows of foreign exchange in check, thereby instilling a culture of monitoring and compliance in the banking industry.