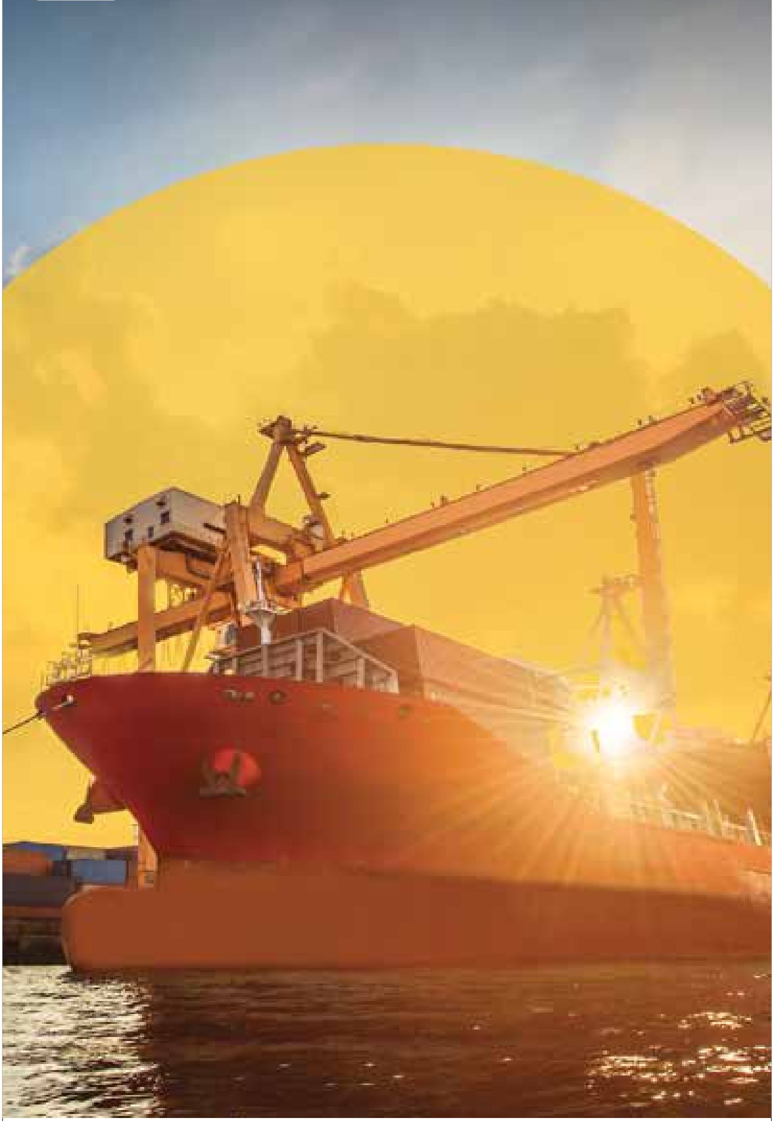
Soneri Bank



TRADE AWARENESS GUIDE

Version 2.0

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1. **Definition of International Trade**

   International trade is the exchange of capital, goods, and services across international borders or territories. In most countries, such trade represents a significant share of gross domestic product (GDP).

2. **Tenors in International Trade**

   Below are the most commonly used tenors in Int'l Trade.

a) Sight/CAD/DP
b) Usance/DA
c) Deferred Payment

3. **Incoterms**

   The Incoterms or International Commercial Terms are a series of pre-defined commercial terms published by the International Chamber of Commerce relating to International Commercial Law. They tell the parties what to do with respect to carriage of the goods from buyer to seller and export & import clearance. The current Incoterms in use are **Incoterms 2020** effective from **January 01, 2020.**

   As per SBP regulations, 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.

4. **SBP FE Regulations**

   State Bank of Pakistan regulates Foreign Exchange in Pakistan through **Foreign Exchange Regulations Act 1947 (Amended 2016)** and **Foreign Exchange Manual Updated March 2020. Chapter 12 and 13 revised in July 2021.**

5. **Letter of Credit**

a) A letter issued by a bank to another bank (especially one in a different country) to serve as a guarantee for payments made to a specified person under specified conditions.

b) Before opening a letter of credit that applicant must submit a firm commitment in the form of performa invoice, purchase order or indent as issued by an indenter.

c) In case letter of credit is **USD 20,000/-** (eqv.) or over, the bank must obtain a confidential report of the exporter.

d) It is not permissible to establish letters of credit providing for alternate countries of origin of goods unless prior approval of the State Bank is obtained.

e) It is not permissible to open clean, revolving, transferable or packing credits.

f) As per UCP 600, clean presentation must be accepted or paid within 05 workings days after receipt of documents at issuing bank's counter.

6. Retention of Export Proceeds

The exporter has maximum 03 working days from the date of Nostro to surrender export proceeds, or else the bank shall forcibly settle the same at its end by applying weighted average buying rate of SBP. **(Para 7 of CH 12 of FEM)**

7. Documentary Collection

a) A documentary collection is a process in which a seller instructs their bank to forward documents related to the export of goods to a buyer's bank with a request to present these documents to the buyer for payment, indicating when and on what conditions these documents can be released to the buyer.

b) As per the regulation, documents against collection can only be paid if complete set of documents including shipping documents are received from the remitting bank.

8. Open Account

a) An open account transaction is a sale where the goods are shipped and delivered before the payment is due. This option is the most advantageous for the importer in terms of cash flow and cost, but it is consequently the highest risk option for an exporter.

b) As per the regulation, the banks are allowed to affect import payments on open account basis on behalf of **manufacturing and industrial users** and **commercial importers** for **import of raw materials and spare parts only** to be used as **input by the manufacturing/industrial concerns.** Bank may also allow payments against imports on Open Account basis as per the below detail:

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

c) Authorised Dealers shall allow payments against goods imported on open account basis **within one year from the date of filing of GD Form.**

d) Authorised Dealer must ensure, by verification through GD Form that the payment made against imported goods is **not more than the declared value** of the goods imported into Pakistan. **(Para 17 CH 13 of FEM)**

9. Export Advance Payment

a) An advance payment is a payment that is made before goods or services are provided. The exporter uses the money to procure raw materials/meet (overheads costs) for producing ordered goods.

b) The payment must be received from the intended buyer. In case of 3rd party, a proper disclosure must be made on advance payment voucher supported by sales contract.

c) Exporter must ensure that the shipment against advance payment is made within one year from the date of receipt.

d) In case of delays, such advance payments shall be lapsed and prior approval from SBP will be required for affecting shipment.
(Para 27 of CH 12 of FEM)

10. Import Advance Payment

a) The import advance payment can be made against LC upto 100% of the value of letter of credit for import of plant, machinery, spare parts and raw material on behalf of manufacturing concerns for their own use only.

b) For without LC advance payment is allowed up to maximum of USD 25,000/- or equivalent per invoice on behalf of manufacturing concerns and commercial importers for import of raw material, spare parts and machinery for ultimate use by the manufacturing/ industrial concerns.

c) In case of import of life-saving medicines & devices, bank may allow advance payment up to USD 50,000 or equivalent per invoice.

d) Banks may also process the requests of the importers for advance payment up to USD 10,000/- per invoice for import of the following items:

i. Essential medicines and devices.
ii. Aircraft/Ship/ Port related spare parts/components.
iii. Lab equipment/instruments imported by educational institutions for their own use.
iv. Newspapers, magazines, periodicals, books etc.

e) The importer has to arrange shipment against advance payment within 730 days in case of plant and machinery and 120 days in all other cases from the date of remittance.

f) In case of delay shipments or cancellation, penalty @ 1% per month or part thereof for the delayed period, on the outstanding amount of advance payment.
(Para 30 CH 13 of FEM)

11. Tenor Allowed for Exports

a) In case of DP/CAD/Sight shipments, payment should be repatriated within 45 days else this will be treated as overdue.

b) For DA/Usance shipments, maximum tenor allowed is 120 days from shipment date. Where the terms of sale/irrevocable letter of credit provide for payment is on 120 days from date of shipment, it shall be permissible for the exporter to repatriate export proceeds within 135 days from shipment date.

c) To ensure timely realization of export proceeds, SBP will initiate necessary action in all those export cases where full export proceeds are not realized within prescribed time period as defined in Para 6 of Chapter 12 of the FE Manual.

In case of realization of export overdue bill, weighted average buying rate of SBP will be applied.

d) Overdue cases attract penalty from SBP.
(Para 6, 33 and 33A of CH 12 of FEM)

12. Direct Dispatch of Export Documents

a) It is allowed to make shipping documents in the name of the importers and dispatch of the same by the exporters to the consignees where value of export consignment is subject to allowable limits.
b) The export overdues of an exporter should not be more than 5% of the previous year's exports.
c) New exporters with no export history or exporters having exports less than USD 250,000 during the past 3 years may be allowed to avail the above facility provided shipment's value is up to USD 100,000/- and the total export overdues do not exceed 5% of the previous year's total exports value.
d) In cases where full payment (100%) has been realized against exports of goods from the buyer abroad after shipment of goods but before the dispatch of documents, bank may release shipping documents to the exporter after endorsing them in favor of importer, for direct dispatch to the importer abroad.
(Para 11 and 11A of CH 12 of FEM)

13. Letter of Guarantee

a) A letter of guarantee is a type of contract issued by a bank on behalf of a customer who has entered a contract to purchase goods from a supplier. The letter of guarantee lets the supplier know that they will be paid, even if the customer of the bank defaults.
b) As per the regulation, prior SBP approval is required for issuing cross border guarantee except if on behalf of exporters, members of recognized Consultancy/Construction Associations and Companies approved by Pakistan Engineering Council (PEC) in Pakistan.
c) Guarantees may be issued in foreign currency on behalf of residents and nonresidents in favor of Government departments/ministries and PSEs, subject to the compliance of Prudential Regulations and other regulations issued by SBP. In case the guarantee in foreign currency is invoked, the amount will be paid in equivalent Pak Rupees to the concerned Government department/ministry/PSE**.**
(Part E, Chapter 19 of FEM)

14. Shipping Guarantee

Shipping Guarantee (SG) is an indemnity given by the customer, countersigned by the Bank, to a shipping company or its agent to allow the shipping company to release the goods to the customer without the presentation of the original Bill of Lading.

15. Export to Afghanistan

In view of peculiar nature of trade with Afghanistan, the Authorized Dealers will accept cash convertible currencies brought over their counter by the exporters and convert the same at the prevailing buying rate applicable for normal export proceeds for credit to the PKR account of the exporter.
(Para 13 of CH12 of FEM)

16. FE25 Export Loans

a) Banks are allowed to use/invest their deposits mobilized under FE 25 for financing of Import/Exports.

b) Banks are allowed to extend the FE-25 Export Loans backed by an L/C or firm contract(s).

c) At the time of allowing the facility, the foreign exchange component of such facilities should be surrendered to the bank at the buying rate.

d) These loans should be settled through realization of export proceeds or remittances from abroad in line with the prescribed regulations.

e) In case the loan is not settled due to on-shipment/cancellation/partial shipment within the prescribed timelines, Bank shall recover a penalty from the concerned exporter at the rate of one percent per month or part thereof.
(App Vi-3A of CH6 of FEM)

17. Pakistan Single Window (PSW)

WEB Based One Customs (WeBOC)
A move towards digitizing trade, Pakistan Customs and PRAL introduced WEBOC for exports and imports in a phased wise approach. Electronic Form E (EFE) were introduced in Oct 2015 followed by Electronic I Form (EIF) in August 2016.

Through WEBOC, imports/ exports were allowed on transactional based approvals by banks. Moreover, banks have to manually capture underlying payment information through inputting BDA/ BCA in WEBOC.

As per data collated by Pakistan Customs, on average 1.5 million EIF and EFE are issued annually by commercial banks to regulate physical movement of goods despite the fact that more than 98% transactions are compliant. This over the period has proved less efficient and layered process resulting into clogging of un-cleared consignments at the ports and increased turn around time.

Pakistan Single Window (PSW)
Keeping in view short comings of WEBOC, removing unnecessary layering and improving turn around time of shipment clearance at the port, PSW is introduced as replacement of WEBOC.

Pakistan ratified the WTO's Agreement on Trade Facilitation (2013) on 27th October 2015 and committed for the establishment of Pakistan Single Window (PSW) with an implementation timeline of five years with effect from 22nd February 2017. Pakistan Customs has been designated as the 'Lead Agency' by the Office of the Prime Minister for the development of this important reform initiative. Accordingly, Pakistan Customs has established a Program Management Office(PMO) in the Customs Wing to coordinate and supervise this initiative.

PSW connect relevant government departments with each other and with economic operators like importers, exporters, customs agents, shipping agents, commercial banks, transporters etc. in Pakistan for efficient management of cross border trade.

Salient Features of PSW

- Substitution/elimination of EIF and EFE with real time exchange of data via Electronic Data Interchange (EDI) mechanism between Customs and the commercial banks through PSW platform.
- PSW is based on pre-approved banking profiles of the traders developed after due diligence through Trade KYC by the banks, integrated risk management guidelines incorporating parameters provided by the SBP and banks.
- Banks' core banking systems and PSW have a 2-way communication where customer's static data, financial information of underlying trade transaction, import/ export payments data information and goods declaration (GD) data shall be shared with each other through EDI.
- PSW has inbuilt controls where trade data shall be cross checked with internal listing of IPO, EPO, country level negative listing and bank's negative lists of supplier, commodity and country.
- Trader will not have to approach his bank each time for approval as long as transaction remains within the parameters set at the time of trader profile approval by the bank.
- Banks alongwith Customs shall have instant access on underlying trade including financial, shipping and goods clearance information.

Role of Commercial Banks

- Banks' role of approver at pre stage of shipment is changed to reviewer at post stage of shipment.
- Bank while executing financial transaction will continue to conduct its due diligence as per prevailing regulatory guidelines on FX, AML and TBML.
- Bank's will have to give special attention on on-boarding of trade customers and proper maintenance of Trade KYC as PSW is built upon traders' profiles approved by the bank which sets a parameter to conduct trade transaction.
- Any gap or incomplete Trade KYC shall lead to unauthorized shipment which will have consequences on the bank.

18. Financial Instrument (Exports)

a) The financial instrument will be issued by bank in the prescribed format on behalf of exporters upon:

   i) receipt of advance payment;
   ii) advising or receipt of documents under letter of credit or
   iii) receipt of copy of contract/ performa invoice from exporters.

   For exports on open account basis, communication of financial instrument from bank prior to shipment of goods shall not be required.

b) Expiry date of the financial instrument must commensurate with the related underlying transaction (i.e. contract/LC/advance payment) as per applicable regulations.

c) Bank can amend financial instruments such as value, quantity, price, validity etc. upon request by the exporter supported by appropriate documentary evidence/details to the satisfaction of the bank. Bank can cancel financial instruments before submission of BCA (in case of advance payment) or its attachment with the declaration in the PSW. The exporter or his authorized agent will be required to submit the shipping documents to the bank within 14 days from the date of shipment.

d) In case the export proceed are received through an Authorized Dealer other than the one initiating the financial instrument, the approved financial instrument can be transferred by the initiating bank to the bank making the payment using “Bank to Bank Transfer” utility in PSW after utilization against declaration(s).
(Para 15B-of CH 12 of FEM)

19. Financial Instrument (Imports)

a) 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 bank 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 bank regarding the cash margin requirement. Bank shall recover required amount of margin and communicate the financial instrument to PSW.

b) Expiry date of the financial instrument must commensurate with the related underlying transaction (i.e. contract/LC/ advance payment) as per applicable regulations.

c) Bank 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 bank.

d) Bank can cancel financial instruments before submission of BDA (in case of advance payment) or its attachment with the declaration in the PSW system.

e) Bank 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.

f) If the payment is to be made by a bank other than the one initiating the financial instrument, the approved financial instrument can be transferred by the initiating bank to the bank making the payment using “Bank to Bank Transfer” utility in PSW after utilization against declaration(s).
(Para 6B-of CH 13 of FEM)

20. Handling of Import Transactions where Payment is not Involved from Pakistan

a) Banks 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, banks will be required to share financial instrument with PSW against which no payment outside Pakistan is required against the mentioned purposes.
(Para 6B-xiii of CH 13 of FEM)

21. FE25 Import Loans

a) The facility for imports can be allowed only from the date of actual execution of import payments in FCY by creating a FCY loan. The maximum period should not exceed six months from the date of disbursement.

b) For repayment of the loan, banks are allowed to purchase FCy to the extent of loan from inter-bank market at the prevailing exchange rate on the date of repayment in order to adjust FCY loan outstanding.

c) Banks are allowed to purchase FCY from inter-bank market to cover the interest amount on such loans against submitting 'M' forms alongwith monthly foreign exchange returns.

d) No forward cover will be provided to importer(s) who avail FCY finance against FE-25. The forward cover facility is allowed only against outstanding import.
(App VI-3 of CH 06 of FEM)

22. Trade Based Money Laundering (TBML)

a) Trade Based Money Laundering is defined as the process of disguising the proceeds of crime and moving value through the use of trade transactions in an attempt to legitimize their illicit origins.

b) It is the process by which criminals use a legitimate trade to disguise their criminal proceeds from unscrupulous sources or deliberately over/under invoice their trades.

c) To mitigate, banks are advised to conduct due-diligence including conducting KYC checks, vessel tracking for suspicious shipments, price verification etc.
(FE Circular No. 04 of 2019)

23. Trade Sanctions

a) Trade sanctions are trade penalties imposed by one nation onto one or more other nations. Sanctions can be unilateral, imposed by only one country on one other country, or multilateral, imposed by one or more countries on a number of different countries.

b) Sanctions and embargoes are political trade tools, mainly put in place by the United Nations (UN) and the European Union (EU). The main aim of all UN sanctions and embargoes, as set out in the UN Charter, is to implement decisions by its Security Council to maintain or restore international peace and security.
(FE Circular No. 04 of 2019)

24. SBP Export Refinance Scheme

a) The Export Finance Scheme (EFS) is in operation since 1973 with the objective to boost exports of the country. Under the scheme short term financing facilities are provided to exporters through Banks for exports of all manufacturing goods especially value added products with the exception of basic & primary commodities/raw materials as mentioned in negative list issued vide BPRD Circular No. 5 dated February 24, 2003.

b) There are two parts of EFS i.e. Part-I (Transaction Based) and Part-II (Performance Based).

c) **EFS Part-I:** Part-I is a transaction based facility. The commercial banks provide export finance to the exporters on case-to-case basis at pre-shipment and/or post-shipment stage against Firm Export Order/Contract/LCs. The exporter has to show export proceeds equivalent to the loan amount as performance. The tenor of the facility is up to 180 days.

d) **EFS Part-II:** It is a performance based facility, where entitlement of exporter for revolving export finance limit is equal to 50% of the export proceeds realized through export of eligible commodities in the preceding financial year. Export performance of an exporter is matched annually against total loan availed during the financial year on daily product basis. The exporter has to realize export receipts from the export of eligible commodities, excluding any exports for which finance is obtained under Part-I of the Scheme during the relevant period. The maximum tenor of the loan under Part-II of the scheme is also 180 days which could be rolled over for another 180 days subject to showing at least 70% shipment of loan availed in initial 180 days.

e) The exporter would not be entitled to avail the EFS facility till such time that the overdue position is reduced to the 5% benchmark level.

25. Rupee-Based Discounting of Export Bills/ Export Receivables Under EFS/ IERS

SBP has introduced Rupee-based discounting of export bills/ export receivables under existing EFS/ IERS Scheme.

1) This incentive is available only if foreign exchange associated with the export bill/ export receivables being discounted is sold in interbank via FX conversion and rupees are credited to the customer at the time of discounting.

2) It will be applicable for both post-shipment and pre-shipment export receivables.

3) Regulatory export realization limit of 120 days will not be applicable if exporter opts for this scheme. He can avail export realization tenor of 180 days from the date of shipment subject to:

   a) Availment under this scheme is made within 14 workings days from the date of shipment.
   b) Maximum period of EFS/ IERS doesn't exceed 180 days if before shipment (where pre-shipment export receivables discounted)
   c) Tier based rates will be applicable for availment under subject scheme.

4) Exporter can't utilize performance of shipment against rupee-based discounting under EFS/ IERS Part I or II.

5) In case exporter has already availed EFS Part I (pre or post-shipment), rupee-based discounting facility will be available only to the extent of remaining days of maturity and settlement of availed Part-I loan through discounting proceeds.

6) Exporters who already have availed financing under Part II can also get their export bills discounted with the condition that they meet performance requirement of EFS Part II. Any EFE in WEBOC/ FI in PSW utilized under this special scheme can't be considered in performance under Part II.

7) Export bills discounted under this scheme can be included in exporter's next year's annual limit entitlement under Part II.

8) All eligibility criteria and other terms & conditions including repayment of quarterly share of profit under EFS/ IERS will remain applicable.

9) SBP refinance will be for a fixed period determined on the date of discount hence repayment will not have any impact in case of early or late realization of export bills. In case export bill is late realized after SBP repayment date, bank's existing overdue markup will be applicable.

10) Exporters who already have got their export bills discounted before announcement of this scheme aren't eligible for availment under rupee-based discounting.

11) In case of shortfall in realized export proceeds, differential will be purchased at the prevailing spot rate however exporter will remain obligated to repatriate differential amount as per the regulation mentioned in Chapter 12 of FEM.

12) Export bill discounted but not realized within due date will be eligible for export overdue report as per guidelines mentioned in Chapter 12 of FEM.

13) For availment under Pre Shipment, customer has to provide his undertaking that underlying performance will not be utilized for obtaining new/ duplicate financing against Rupee Based Discounting Post Shipment or Regular EFS Scheme.
(IH&SMEFD Circular No. 03 of 2022 dated February 16, 2022)

Key Trade Publications

1. Uniform Customs and Practice (UCP) 600
2. International Standard Banking Practice (ISBP) 745
3. Uniform Rules for Collection (URC) 522
4. Uniform Rules for Bank-to-Bank Reimbursements under DC (URR) 725
5. The International Standby Practices (ISP) 98
6. Uniform Rules for Demand Guarantees (URDG) 758
7. Incoterms 2020
8. SBP FERA 1947 (Amended 2016)
9. SBP FE Manual (Updated July 2021)
10. Framework for Managing Risks of Trade Based Money Laundering and Terrorist Financing
11. Import Policy Order
12. Export Policy Order
13. Stamp Duty Act

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