

# REGISTRATION / LICENSING AND OTHER REQUIREMENTS FOR MONEY EXCHANGE COMPANY



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**Small and Medium Enterprise Development Authority  
Government of Pakistan**

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## INTRODUCTION OF SMEDA

The Small and Medium Enterprise Development Authority (SMEDA) was established with the objective to provide fresh impetus to the economy through the launch of an aggressive SME development strategy. Since its inception in October 1998, SMEDA had adopted a sectoral SME development approach. A few priority sectors were selected on the criterion of SME presence. In depth research was conducted and comprehensive development plans were formulated after identification of impediments and retardants. The all-encompassing sectoral development strategy involved overhauling of the regulatory environment by taking into consideration other important aspects including finance, marketing, technology and human resource development.

After successfully qualifying in the first phase of sector development SMEDA reorganized its operations in January 2001 with the task of SME development at a broader scale and enhanced outreach in terms of SMEDA's areas of operation. Currently, SMEDA along with sectoral focus offers a range of services to SMEs including over the counter support systems, exclusive business development facilities, training and development and information dissemination through a wide range of publications. SMEDA's activities can now be classified into the three following broad areas:

1. Creating a Conducive Environment; includes collaboration with policy makers to devise facilitating mechanisms for SMEs by removing regulatory impediments across numerous policy areas
2. Cluster/Sector Development; comprises formulation and implementation of projects for SME clusters/sectors in collaboration with industry/trade associations and chambers
3. Enhancing Access to Business Development Services; development and provision of services to meet the business management, strategic and operational requirements of SMEs.

SMEDA has so far successfully formulated strategies for sectors, including fruits and vegetables, marble and granite, gems and jewellery, marine fisheries, leather and footwear, textiles, surgical instruments, transport and dairy. Whereas the task of SME development at a broader scale still requires more coverage and enhanced reach in terms of SMEDA's areas of operation.

Along with the sectoral focus a broad spectrum of services are now being offered to the SMEs by SMEDA, which are driven by factors like enhanced interaction amongst the stakeholders, need based sectoral research, over the counter support

systems, exclusive business development facilities, training and development for SMEs and information dissemination through wide range of publications.

## **ROLE OF SMEDA LEGAL SERVICES CELL**

The Legal Services Cell (LSC) is a part of Business Development Division of SMEDA and plays a key role in providing an overall facilitation and support to SMEs. The LSC provides guidance based on field realities pertaining to SMEs in Pakistan and other parts of the world.

LSC believes that information dissemination among the SMEs on the existing regulatory environment is of paramount importance and it can play a pivotal role in their sustainable development.

In order to facilitate SMEs at the Micro Level LSC has developed user-friendly systems, which provide them detail description of the Laws, and Regulations including the process and steps required for compliance.

The purpose of this document is to provide SMEs either individuals or companies with information pertaining to licensing and other legal requirements for money exchange companies. Entrepreneurs interested in enhancing their understanding about the procedures and rights can also use the document. For convenience of the reader's sample of various forms, instructions how fill up the forms and important addresses are also included.

## **DISCLAIMER**

Information in this document is provided only for general information purpose and on an "as is" basis without any warranties of any kind. Use of this information is at the user's sole risk. SMEDA assume no responsibility for the accuracy or completeness of this information and shall not be liable for any damages arising from its uses."

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## Overview:

- 1) The Foreign Exchange Regulation Act, 1947 (hereinafter referred as “the act, 1947”) is the basic law of Pakistan which deals with the formation / registration of Exchange Companies in Pakistan.
- 2) As per the act, 1947 “exchange company” means a company authorized under section 3AA of the act, 1947 to deal in foreign currency notes, coins, postal notes, money orders, bank drafts, traveler’s cheques and transfers. The expression “company” means a company having been formed and registered under the Companies Ordinance, 1984 pursuant to no objection certificate issued by the State Bank in respect thereof to the Securities & Exchange Commission of Pakistan.
- 3) From the perusal of above paragraphs, it is revealed that Exchange Company should be registered with Securities & Exchange Commission of Pakistan as a limited company under Companies Ordinance, 1984 pursuant to no objection certificate issued by the State Bank in respect thereof.

## Registration & Licensing Procedure:

- 4) The following is the registration & licensing procedure for exchange companies:
  - 4.1 As per F.E. Circular No. 09, July 30 2002, the applicants interested in formation of Exchange Companies would, in the first instance apply on prescribed form (annexed herewith as annexure “A”) to State Bank of Pakistan (hereinafter referred as “SBP”) for obtaining a NOC. In case the NOC is denied, the State Bank will give reasons for such refusal.
  - 4.2 On the receipt of this NOC from the SBP, the applicant will submit an application to SECP for incorporation under the Companies Ordinance, 1984. The registration procedure for registration of Exchange Company with SECP is same as for other limited companies. To know about company registration procedure with SECP please refer our another document “Company Registration Procedure” already uploaded at SMEDA website.
  - 4.3 The minimum authorized and paid-up capital of the exchange company would be Rs. 200 Million and Rs.100 Million, respectively.

Paid-up capital of the company will have to be increased to Rs.200 Million within -3- years from the date of incorporation. 25 percent of the Capital shall be maintained as Statutory Liquidity Reserve (SLR) with SBP in the form of unencumbered approved government securities. State Bank would extend current account and SGLA facilities to Exchange Companies.

4.4 After the Exchange Company is registered by SECP, the applicant would apply to SBP for issuance of license for commencement of operations. An application processing fee of Rs. 200,000 (non-refundable) shall be charged by SBP. A pay order/draft for this amount favoring SBP should accompany the application for issuance of license.

4.5 SBP may, after scrutinizing the application for issuance of license duly made in accordance with the regulations and after having been provided with all information, documents and reports as may be required, grant or refuse to grant the license. In case of refusal, SBP would assign reasons for such rejection. However, issuance of the license will be restricted once the limit has been reached, which will be at the sole discretion of SBP.

4.6 If an application for issuance of license is submitted, complete in all respects, the decision as to the issuance of license or otherwise shall be intimated within one month from the date of submission of such application. The license shall be issued for a period of three years, renewable thereafter for the same period. The license will not be transferable to any other entity of whatsoever nature, through any means.

## Renewal of License:

5) As stated above license shall be issued for a period of three years, renewable thereafter for the same period. An application for renewal of license shall be made within a period of not less than three months before the expiry of the original license or any renewal thereof.

## Revocation of License:

6) SBP shall have the right to revoke a license at any time. Before a license is revoked, the Exchange Company shall be served with a notice mentioning therein the reasons for such revocation and instructions for the company to

explain its position in writing within 30 days from the date of issuance of notice. The license may be revoked if:

- The State Bank is provided with false, misleading or inaccurate information by or on behalf of the Exchange Company;
- It appears to the State Bank that the Exchange Company has violated these or any other regulation, instruction or circular issued by the State Bank or if any of the conditions of license has not been fulfilled or is incapable of fulfillment;
- The interests of the customers of Exchange Company are in any way threatened, whether by the manner in which the company is conducting or intends to conduct its affairs or for any other reason
- The Exchange company did not commence its exchange business within three months from the date of issuance of license by the State Bank;
- Any other reason that in the opinion of the State Bank disqualifies the Exchange Company to hold the license.

## Governing Rules & Regulations:

7) The following rules & regulations should be followed by exchange companies for its operations:

- 7.1 The trade name of the Exchange Company shall not include the word "Bank", "Financial Institution", "Investment/Commercial/Finance/Real Estate" or any other description that indicates activities other than exchange business.
- 7.2 The Exchange Company shall be authorized to deal in foreign currency notes, coins, postal notes, money orders, bank drafts, traveler's cheques and transfers. The Exchange Companies will be prohibited to engage in any other activity such as deposit taking, lending etc., directly or indirectly.
- 7.3 The Exchange Companies would be allowed to buy and sell foreign exchange from/to individuals in "Ready" value only.
- 7.4 In addition to the individuals, Exchange Companies would also be allowed to sell foreign exchange to incorporated companies for remittance on account of royalty, franchise, technical fee, repair and maintenance etc., after obtaining No Objection Certificate from the Designated Authorized Dealer.
- 7.5 Exchange Company would be allowed to buy and sell foreign exchange in "Ready", "Tom" and "Spot" value dates from/to other Exchange Companies.

- 7.6 Exchange Company would be allowed to “sell” foreign exchange in the Ready, Tom and Spot value dates, with banks as counterparty (Interbank Market).
- 7.7 The companies would be allowed to have foreign participation in their equity upto a maximum of 50%. State Bank would permit repatriation of profits in proportion upto the extent of foreign equity.
- 7.8 Every branch of a company would be allowed to offer the complete range of services that the Exchange Company is authorized to offer.
- 7.9 In addition to full-fledged branches, Companies will be allowed to have franchise arrangements with other entities. However, the responsibility in terms of adherence to SBP regulations will continue to reside with the licensee who shall be held responsible for any violation of SBP regulations committed by the franchisee.
- 7.10 Besides the branches, the companies shall also be allowed to open Currency Exchange Booths (CEB) all over the country at public places such as airports, hotels etc. The scope of activities for CEB's would be limited to currency notes/coins exchange and encashment of travelers' cheques only.
- 7.11 The Directors of an Exchange Company must possess appropriate knowledge to carry out the exchange business. They should not have been convicted of any offence involving moral turpitude and shall not have failed to honor their liabilities towards banks, tax authorities or other government agencies and shall not have been declared bankrupt nor have been subjected to attachment of their assets by the courts.
- 7.12 Directors of Exchange Companies will not be allowed to hold the Director's office in more than one Exchange Company. The directors shall also be barred to borrow or avail credit or defer payment with the Exchange Company in any form.
- 7.13 The company shall conduct the exchange business only from such premises as may be approved by the State Bank. The premises should preferably be located at an easily accessible location and shall be relocated only after obtaining prior approval from the State Bank.
- 7.14 The Companies shall ensure that facilities such as telephone, fax, Telex/SWIFT, hardware/software and electronic cash registers etc. are available.
- 7.15 The companies shall also equip themselves with necessary qualified staff to properly manage computerized reporting to the State Bank.
- 7.16 The Exchange Companies shall limit their exposure at the close of business each day at a level not higher than 50% of their

capital base. The method to determine exposure shall be the same as has been prescribed for banks i.e. higher of the overbought or oversold positions at the close of day.

- 7.17 All dealings between an Exchange Company and its customers shall be supported by official receipts. Such receipts shall be prepared for every transaction in duplicate, one of which shall be provided to the customer and the other shall be kept in record for a period to be specified by SBP.
- 7.18 Every receipt provided to the customer shall be sequentially numbered and also bear the name of the Exchange Company, date, nature of transaction i.e. sale/purchase/transfer, currency dealt, exchange rate and initials of dealer/authorized employee.
- 7.19 For currency exchange transactions exceeding USD 10,000 (or equivalent in other currencies) the name, address and ID/Passport Number of the customer shall also be mentioned on the receipt after due verification.
- 7.20 For transactions involving transfers/remittances, the names, addresses and other particulars of both the remitter and beneficiary shall be mentioned on the receipts regardless of the amount.
- 7.21 A notice advising customers to obtain receipts shall be prominently displayed at each branch/CEB/franchise.
- 7.22 Another notice declaring the exchange rates applicable for currency sale/purchase/transfer shall also be displayed at a prominent place in each branch/CEB/franchise.
- 7.23 For the purpose of annual statutory audit, the Exchange Companies shall appoint only those auditing firms that are on the approved list of the State Bank for audit of banks.
- 7.24 The Exchange Companies shall maintain proper accounting records and submit the same in such form, as may be required by the State Bank.
- 7.25 The company shall invariably submit to the State Bank, within a period not exceeding three months from the date of closing of its financial year, a signed copy of its year end audited accounts.
- 7.26 The financial year of the company will be from 1st July to 30th June.
- 7.27 The company shall fully abide by all the regulations, instructions, directives, circulars and other communications issued by the SBP and subject its records and documents to the examination, inspection and supervision of SBP. It shall also ensure compliance with all other laws of the land; in particular the provisions relating to counterfeit coins and banknotes.

- SBP reserves the right to inspect the activities of Exchange Company at any time it finds appropriate to ensure adherence to the regulations issued by SBP.
- The company shall adopt proper techniques of internal control such as internal audit.
- Any change in the Memorandum and/or Articles of Association of the company shall only be made after obtaining prior approval from the State Bank.

## Important Addresses:

State Bank of Pakistan  
Central Directorate  
I.I. Chundrigar Road  
Karachi  
Pakistan  
Phone: 111-727-111

Exchange Policy Department  
[epd.helpdesk@sbp.org.pk](mailto:epd.helpdesk@sbp.org.pk)

### SECP COMPANY REGISTRATION OFFICE

CRO ISLAMABAD  
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ANNEXURE "A"

APPLICATION FORM FOR ISSUANCE OF LICENCE  
TO EXCHANGE COMPANY

The Director,  
Exchange Policy Department,  
State Bank of Pakistan,  
Karachi

Dear Sir,

We, M/s. -----, hereby apply for issuance of NOC to our proposed Exchange Company. As desired, we give necessary information on the enclosed format. Duly attested copies of Memorandum of Association and Articles of Association are enclosed herewith.

Yours faithfully,

Signature: \_\_\_\_\_

Name: \_\_\_\_\_

Proposed Designation: \_\_\_\_\_

Name of the proposed Exchange  
Company: \_\_\_\_\_

\_\_\_\_\_

Address: \_\_\_\_\_

Date: \_\_\_\_\_



BASIC INFORMATION

1. Name of proposed Exchange Company \_\_\_\_\_
2. Expected date of Incorporation \_\_\_\_\_
3. Proposed place/location of Registered Office & Head Office: \_\_\_\_\_
4. State whether the company is private or Joint Venture: \_\_\_\_\_
5. Previous Application (give particulars of any Application previously made to SBP in this regard): \_\_\_\_\_
6. Particulars of the Directors
  - i. Give names, business and addresses of the Directors of Exchange Company.
  - ii. Give shareholding pattern of Directors in the proposed Exchange Company.
  - iii. Give complete resume of each Director with his/her educational and professional/back-ground, working experience etc. (on separate sheet).
7. Give a brief description of the system of supervision and internal controls of the proposed Exchange Companies: \_\_\_\_\_
8. Give details of proposed Authorised & Paid-up capital of the proposed Exchange Company: \_\_\_\_\_
9. Number of branches/booths/franchise arrangement alongwith their location, address etc. for which license is required: \_\_\_\_\_
10. Detailed feasibility report of the proposed Exchange Companies encompassing all factors including Technical, Market, Management & Financial viability of such company: \_\_\_\_\_
11. Details of technology to be used i.,e. computer/swift/fax for the transactions: \_\_\_\_\_

Note: (use additional pages, if necessary)

