



**ASSOCIATESHIP EXAMINATION  
LEVEL III  
INTERNATIONAL TRADE FINANCE  
(OLD SYLLABUS)  
APRIL 2025**

NB:

1. Read the instructions on the cover of the answer booklet.
2. Answer **FIVE** questions as follows:  
**SECTION A – TWO QUESTIONS**  
**SECTION B – TWO QUESTIONS**  
**SECTION C – ONE QUESTION**
3. Each question carries **20 marks**. Where questions are subdivided, the marks allotted are shown in brackets.
4. Answers in listed note form are acceptable provided they are clearly and logically presented and the points made are adequately developed.
5. Silent, non-programmable calculators may be used in this examination. Whether or not candidates use them, it is in their interest to show the basic figures from which their calculations are made.
6. No books, papers or any other aids except writing materials may be used in this examination.
7. Time allowed: **THREE HOURS**. **Additional 15 minutes reading time** is allowed at the beginning of the examination when candidates may write on this paper but NOT in the answer booklet.
- 8. DO NOT WRITE YOUR NAME ON THE ANSWER BOOKLET.**
- 9. DO NOT OPEN THIS QUESTION PAPER UNTIL INSTRUCTED TO DO SO.**

## SECTION A

### QUESTION 1

Your customer, Argos Traders Plc., has a subsidiary company in the UK which exported its products to the South Seas and the Pacific Coast of the United States for many years. Recently, the subsidiary reached an agreement with its buyers in the United States which enables them to draw bills so that they fall due for payment 120 days after the shipment date. The documents are collected through your office. Because of restricted profit margins over the past few months and a shortage of working capital, the customer called to see you on 30 March to seek your advice on how best it could protect its profit margins on one immediate transaction and for future transactions. The bill amount specifically discussed was for 100,000 US Dollars, accepted by the buyer and falling due on 30 June. Past experience indicates that the buyer effects payment on the due date of the bills and so Argos Traders Plc does not have to worry about being out of funds for any length of time.

Additional information available on 30 March is as follows:

- |                        |            |            |
|------------------------|------------|------------|
| i. <b>GBP/USD Spot</b> | \$1.5180   | \$1.5260   |
| 1 month forward        | Par        | 0.03c disc |
| 2 months forward       | 0.05c disc | 0.08c disc |
| 3 months forward       | 0.09c disc | 0.12c disc |
| 4 months forward       | 0.20c disc | 0.24c disc |
- ii. UK Base Rate is 9.5%
  - iii. US 3 month SOFR Rate (Secured Overnight Financing Rate) is 10.25%
  - iv. The subsidiary company is borrowing sterling from your UK correspondent bank at 2% over the bank's base rate and the bank has agreed with your subsidiary that, in the event of it requesting foreign currency, the bank would charge it at the rate of 1.5% over the US SOFR Rate.
  - v. Your customer and their subsidiaries do not purchase goods for which they have to pay in foreign currency.

**REQUIRED:**

- a. By what methods could your customer be protected from Foreign Exchange Risks while preserving their Profit Margins? [2 marks]
- b. Outline any contractual obligations in respect of Foreign Exchange that your customers would have to undertake. [2 marks]
- c. Show by calculation the proceeds of each method proposed in the answer to (a) above, and the sterling proceeds which each method would produce. [10 marks]
- d. Set out a formula which your customers could use to compare sterling and foreign currency borrowing costs, taking into account, where appropriate, the advantages or disadvantages of forward cover. [6 marks]

*Notes: (1) Ignore all bank charges in respect of commissions, etc.*

*(2) Base your calculations on a 30 day month and a 360 day year.*

**[Total Marks 20]**

**QUESTION 2**

Your customer, Super Steaks Ltd, is a successful meat-marketing organization. It sells high-quality meat products to many outlets in the UK and Europe. You learn that the company is considering a contract to supply lamb to the Middle East. Payment will be by confirmed Irrevocable Letter of Credit, payable at sight at your counters. Your bank will confirm the Letter of Credit, which would show your bank as the nominated to pay.

The following events take place:

- i) The contract is awarded to your customer, Super Steaks Ltd, and is signed in March.
- ii) Before the end of March, your bank receives, confirms and advises an irrevocable letter of credit for Denmark kroner 1, 500, 000.00 calling for shipments in three equal lots, during the months of April, May and June. The expiry date of the letter of credit is 30 June.
- iii) On 1 April, your customer asks you to establish forward contract for each of its potential currency receipts.
- iv) The first shipment took place on 6 April, when payment is claimed and made.
- v) The second shipment took place on 12 May. During that day, and before you had made payment for this second shipment, you received a SWIFT message from the Issuing Bank informing you that, owing to a Danish Customs authorities dispute, delivery of the goods will be delayed. They requested you to arrange to cancel the presentation of documents in respect of the May shipment. You advised your customer of the receipt of the SWIFT message and seek its instructions; but the Directors of Super Steaks Ltd insist upon receiving payment immediately.
- vi) On 1 June, you received a further SWIFT message from the Issuing Bank, requesting you to amend the Letter of Credit as follows:
  - The third shipment to be effected during July.
  - The expiry date of the Letter of Credit was to be extended to 31 July.

Your customer agrees to these amendments, provided the Forward Contract in respect of the third shipment can be amended.

**Note:**

For the purposes of this question, you should assume that all documents are presented strictly in accordance with the terms of the Letter of Credit *on the date of each shipment*.

The rate of exchange for Danish Kroner/Sterling were:

<b>1 April, Spot</b>	9.2950	9.3055	<b>1 June Spot</b>	9.3100	9.3175
1 Month	1.75c pm	1.40c pm	1 Month	1.15c pm	0.90c pm
2 Months	3.90c pm	3.25c pm	2 Months	2.95c pm	2.40c pm
3 Months	5.50c pm	4.70c pm	3 Months	4.75c pm	4.10c pm

**Required:**

- a) Detailed calculation of the Forward Rates you would quote in 1 April, and the expected sterling proceeds which your customer should receive upon presentation of the documents during the months of April, May and June. [6 marks]
- b) The reply you would give to your customer and the Issuing Bank concerning payment or otherwise of the documents presented in respect of the May shipment, giving reasons for your reply. [3 marks]
- c) Calculation of the sterling amount, if any, which would be passed to your customer's account as a result of the extension of the Forward Contract relating to the third shipment. [3 marks]
- d) Detailed calculation of the new Forward Rate which you would quote to cover the third shipment, which, as a result of the telex, is to be effected during July. [4 marks]
- e) A method that you would suggest to your customer which would protect your customer from foreign exchange risks, and at the same time avoid possible losses when forward contracts have to be cancelled or amended. Your answer should include a brief definition of the method and should explain to the customer how this method operates. [4 marks]

**Note:** All charges and commissions are to be ignored.

**[Total Marks 20]**

### QUESTION 3

Held and Sons are stockholders in London whose account is operated on an overdraft basis. Hitherto, they have obtained their stocks in the UK, but they are now forced to look elsewhere for supplies of specialised steel. They have received the following quotations:

<i>Country</i>	<i>Price per ton</i>	<i>Payment Terms</i>
a. Norway	NOK 2,125 FOB, Oslo	Open Account: settlement one (1) month after shipment.
b. Denmark	DKK 1,560 CFR, London	Draft drawn payable two (2) months after shipment (collection charges for buyer).
c. Turkey	TRY 2112 CIF, London	Irrevocable Documentary Credit payable three (3) months after shipment.

**Using the additional information set out below, show by calculating the cost of 100 tons of the steel, and indicate which quotations (a), (b) or (c) would be the cheapest for your customer.**

Freight charges from any European Port	£5 per ton
Insurance (to be effected on 110% of CIF value)	1% payable in £
Collection charges (total for both banks)	¼ %
Documentary Credit charges (including acceptance commission)	¾ %
Overdraft interest one (1) month considered as 1/12 of a year	15% pa.
<i>Ignore all other possible charges</i>	

It is to be assumed that your customer would have covered any exchange risk on the day of shipment, in accordance with rates quoted below, and that all payments and charges relative to any particular quotation are debited on the same day.

<i>Spot</i>	<i>One month</i>	<i>Two months</i>	<i>Three months</i>
Norway 12.20 - 12.50	10 - 12c disc	15 - 18c disc	20 - 23c disc
Denmark 8.90 - 9.10	8 - 5c pm	10 - 8c pm	14 - 11c pm
Turkey 11.80 - 12.05	12 - 9c pm	14 - 11c pm	16 - 12c pm

**(Total Marks 20)**

## SECTION B

### QUESTION 4

Natural Flower Ltd, a company specialized in horticultural products is a customer of your bank. The Directors asked you to visit them regarding a possible contract they are discussing with Italian buyers. Your customer has 'bred' a range of plants, and full ownership and rights to the plants are retained by them. However, the actual plants are being grown on their behalf by another Ghanaian horticultural company in a factory unit off the Tema-Aflao Road. This company produces the plants by means of a cloning system. A well-known international carrier, who is used to handling produce of this nature, will collect the goods and deliver them to Italy.

Your customer has agreed to pay the growers 70 cents in euro per plant. The Italian buyers have agreed to pay EUR 1.40 per plant, but have asked for 30 days' credit against accepted Bills of Exchange. You understand that the terms of shipment will be 'horticultural unit', meaning that buyers are responsible for picking the goods from the factory. The first series of orders for 10,000 plants a month has been received.

The Directors ask you to explain to them the banking methods by which the company can claim payments from Italy. They also ask you if there is a simple way in which they can protect themselves against any exchange risk as the cedi is depreciating against foreign currencies.

#### Required:

- a) A description of the banking method by which you would suggest that claims for payment should be presented to the Italian buyers, together with reference to the relevant internationally accepted procedures involved. [6 marks]
- b) A specific instruction that should be included amongst those given by your customer to the banks involved, which would give further protection to Natural Flower Ltd in this particular transaction. [3 marks]
- c) An explanation of the difference between the terms "30 Days D/P" and "30 Days D/A",

indicating whether your customer would obtain any additional protection if D/P terms were used, bearing in mind the method/terms of shipment proposed for this particular transaction. [8 marks]

- d) An explanation of the simple banking arrangement which would enable your customer to obtain protection against the Exchange Risk. [3 marks]

**[Total Marks 20]**

### **QUESTION 5**

Middlemen International Ltd. trade in commodities and consumer durables. It buys and sells products in many parts of the world. At a meeting at your branch to discuss the renewal of banking facilities with this customer, you are asked to consider arranging an additional facility to enable the company to supply machine parts to Hungary. Some of the parts will be sourced from the UK and some from overseas. These suppliers require a guarantee of payment, although all sources/suppliers are willing to grant Middlemen International Ltd 90 days credit. The Hungarian buyer is able to provide undertakings from its Central Bank which you are happy to support and back. You are willing to assist Middlemen International Ltd but insist that all documentation is routed through your office. Payment under the contracts is to be in Sterling.

#### **Required:**

- (a) Describe TWO methods by which your bank can provide the guarantees in favour of the UK and overseas suppliers and also utilize the undertakings issued by the Hungarians. [4 Marks]
- (b) Explain the operational differences between the two (2) methods described in (a) and the effect, if any, on the company's Balance Sheet. [14 Marks]
- (c) Outline any security/documentation which you would require in respect of the goods for the protection of your bank and the customer. [2 Marks]

**[Total Marks 20]**



## **QUESTION 6**

Briefly define the following INCOTERMS, indicating the relevant mode of transport, and at what point risks and costs are transferred from the Seller to the Buyer:

- a. **CIP** [4 marks]
- b. **DPU** [4 marks]
- c. **CIF** [4 marks]
- d. **DAP** [4 marks]
- e. **FCA** [4 marks]

**[Total Marks 20]**

## **SECTION C**

### **QUESTION 7**

The country has been experiencing fluctuations of the Exchange Rate for some time now. As a International Trade Finance student, what advice would you give to the Government to arrest the situation?

**[Total Marks 20]**

### **QUESTION 8**

Distinguish between Foreign Exchange Contract and Foreign Currency Options. Give five (5) points for each category, totalling ten (10) for two (2) marks each.

**[Total Marks 20]**

