



Examiner's Report

International Trade Finance – Level III

April, 2021

General Comment

The International Trade Finance paper is intended to test candidates' knowledge on issues relating to trade in general within the scope of the syllabus designed and approved for that purpose.

The purpose of this report among other things will highlight the following:

- Overall performance of candidates in the examination;
- Problems identified with regard to candidates' performance;
- Make specific comment on each question, and
- Offer constructive advice for future candidates.

Candidates' Performance:

It is very difficult to find words to describe candidates' performance in this particular sitting. What is more disturbing is that, it immediately follows what had been the best results in the history of the paper. The performance was very poor and had not been recorded in recent times – thus sharply bringing down progress made so far. The immediate sitting before this one had the following results: Out of a total of 169 candidates, as many as 134 passed with only 35 failing. This stood in percentage terms as 80% and 20% respectively. As if that was not enough, as many as 53 candidates passed with Distinction.



Yes, that was the record result.

It is therefore surprising that we recorded the following poor result for this sitting as:

Out of the 174 candidates that took the examination, only 46 Passed and the remaining 128 Failed. In percentage terms it stood as 26% and 74% respectively. All the previous sitting Distinctions completely got vanished out of the system. There were also 68 zero scored in various questions answered – further making the performance worse.

Problems identified

Performance of candidates displayed could best be described as inadequate preparation for the examination. Whereas many problems were noticed during the marking of scripts, some were so disturbing and need to be pointed out. A candidate attempted only question four (Q4) on half page and cancelled it out of frustration – no word was written again after this drama. Again as if by sheer coincidence, in the very next script, another candidate opened the answer booklet, wrote the figure 7 to indicate Q7. This remained the entire content of a whole 16-page answer booklet!!!

There were ample evidence that majority of candidates did not understand the questions and this impacted negatively on their chances of passing the paper. This could be traced to inadequate preparation which had been lamented severally in previous reports. It is important to bear in mind that the examination is based on a broad syllabus and candidates are expected in their own interest to cover all areas. This equips candidates with good knowledge that prepares them into this noble and enviable profession they are pursuing. Try to study hard to become a proud and successful professional.

The horrible definitions identified in some scripts prompted one to ask if indeed such candidates really knew the type of paper they were writing. Remember, this is a Level III paper and so much display of knowledge is expected from candidates. Where question calls for practical application by candidates, this was also lacking and ended up in poor scores. In addition, it was also observed that where questions required quotation of relevant Articles, many candidates ran away from it. We wish to promise future candidates that such questions requiring ICC relevant Codes will continue to appear in examination questions. Kindly try to understand these codes.



Indeed, based on certain strange definitions of trade terms coupled with weakness in foreign exchange calculation questions noticed in some scripts over the various sittings, one is inclined to believe that a lot of candidates are not receiving the right or correct tuition in their attempts to pursue this programme.

Current and prospective candidates are advised that there are knowledgeable lecturers approved by the Institute to take up the various subjects under the entire CIB Programme. Kindly make appropriate enquiries through the Institute to enable you enjoy the programme and come out successfully.

Again, there were some candidates who attempted only few questions instead of five as instructed in the examination rules and code of conduct. Remember that if a candidate answers say only two questions, it means you have already lost as much as 60% of the marks – thereby making it very difficult to pass the paper.

We wish to advise candidates to read the examination instructions very well and to apply same in answering the questions. Blatant disregard to legitimate examination instructions will not go unpunished.



EXAMINATION RESULT FOR APRIL, 2021

Question Number	Total Candidates	Candidates Attempted	%	Number Passed	%	Number Failed	%	Zero Score	%
One	174	27	15.5	3	11.1	24	88.9	17	70.8
Two	174	150	86.2	75	50.0	75	50.0	3	4.0
Three	174	140	80.5	50	35.7	90	64.3	8	8.9
Four	174	94	54.0	50	53.2	44	46.8	25	56.8
Five	174	112	64.4	63	56.3	49	43.8	5	10.2
Six	174	138	79.3	31	22.5	107	77.5	7	6.5
Seven	174	160	92.0	57	35.6	103	64.4	13	12.6
Eight	174	7	4.0	3	42.9	4	57.1	0	0.0



SUMMARY OF APRIL, 2021 RESULT

Category	Award	No.
81% or more	Distinction	0
51% - 80%	Pass	46
46% - 50%	Fail A	13
36% - 45%	Fail B	41
0% - 35%	Fail C	74
Number of Candidates	100%	174
Number of Candidates Passed	26%	46
Number of Candidates Failed	74%	128



Specific comments on April , 2021 Examination

Question One – Comment

This question was about your customer who shipped agro-chemicals to importers in Japan under two equal instalment of 300 metric tons each. They received payment in Yen which were sold to your bank for Euros to customers' account.

Problems identified across scripts were as follows:

- Many candidates could not identify the option rate for the forward contract calculation.
- Majority could not deal with the 95% value of documents received.
- Many also could not realize the amount to be closed out due to short fall between forward contract amount and the 95% document value received.
- Where the close-out amount was identified, many candidates could not use the applicable rate to get the correct answer.
- The final 5% net invoice amount of ¥ 48, 950 was not part of the forward contract amount. Many missed out on this and applied the forward rate instead of the Spot Rate on October 31.
- Finally, majority of candidates skipped over the Expected Proceeds which had to be calculated first before the Actual Proceeds.

Out of 27 candidates who attempted the question, 3 (11.1%) Passed and 24 (88.9%) Failed with 17 zero scores.

Question Two – Comment

This question involved your customer who wanted to switch investment from US dollar into local currency, Ghana Cedi. The company's decision was driven by interest rates on the market. Candidates were to list the points they would discuss with their client to guide them make the right decision. This was under the requirement (a) of the question.

Under requirement (b) candidates were also expected to determine by calculation which of the two investments would give a better yield at the end of maturity. Above all, candidates were expected to calculate the cost of forward cover as this company wanted to cover its exchange risk to protect their investment.

Finally, candidates were to make specific comment as to the validity or otherwise of the company's expectation. The request for this comment was intended to find out whether candidates really understood the question.

As the company was moving from US dollars to local currency, your bank was buying the dollar at spot and invest it. Since the investment was for six months, the bank will buy back the local currency on maturity at a six months' forward rate. This means today, the bank buys dollar at spot into cedis and then use six months forward buying rate to translate Cedi into dollars.



After that, you also calculate the US dollar investment at its going market interest rate to give you basis to compare which of these two outcomes offered the company a better return on their investment.

Remember, the bank bought dollars today at 5.6750, packed this rate with 0.0900 as 6 months' forward quoted at a discount to get 5.7650. This was the agreed rate. This is how the market operates.

Though some did very well, others could not understand the meaning of 'cost of forward cover'. Others also struggled with which rate to choose and ended up picking the selling side of the quoted rates. Again we noticed that some candidates could not relate the meaning of forward point quoted to discount and its impact on the customer.

It is worthy to note that if a currency is quoted to a discount it simply means it is expected to weaken by all market indicators during the cover period.

The question was not adequately answered. After candidates fled from Q1, they came to seek solace here.

Attempted by as many as 150 candidates and as "nowhere cool", it ended up in a draw game - 75 (50%) Passed and 75 (50%) Failed of which 3 scored zero mark.

Question Three – Comment

The question was about your customer who had a special commercial contract to provide freight and passenger services for a number of remote islands in the mid-Atlantic and the Caribbean. Both contract cost to the company and the revenue were all in US dollars for this Riyadh based company in Saudi Arabia. To avoid exchange risk, Nasira Airlines Limited covered its anticipated profit of USD600, 000.00 forward with your bank for a period of one year.

Under requirement (a), candidates were expected to state the type of risk Nasira is exposed to during the contract period.

With requirement (b), candidates were expected to recommend the method to deal with risk mentioned in (a).

Finally, the (c) expected candidates to come out with the currency account to deal with this contract and the eventual net proceeds to be credited to customer's account.

- It was observed that some candidates were able to deal with both (a) and (b) while others were unable to see the connection between the two.
- It was about exchange risk and using forward exchange contract to manage the risk.
- Almost all candidates were able to see the use of US dollar as the currency account for the contract.

- Majority of candidates however, could not fix the 12 months' forward rate correctly to translate the profit in US dollars to the Saudi Riyal.
- Surprisingly, a lot of candidates could not see the close-out aspect of the question.
- Some of those who saw the close-out also missed out on the correct rate applicable.
- There was also the problem of accurate postings on the US dollar account to get the correct amount for the profit

Though not a difficult question, many candidates could not take the opportunity to maximize their chances of passing.

With as many as 140 candidates who attempted the question, 50 (35.7%) Passed while 90 (64.3%) Failed. Out of the failed number was 8 who scored zero mark.



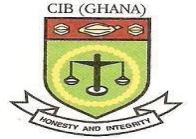
Question Four – Comment

This question gave a scenario of your customer, Skillbase Limited who had stretched their cash resources to the limit and unfortunately at the same time had to pay for goods on ‘document against payment (D/P)’ basis. The company’s ultimate buyers can only pay for the goods when it is delivered. Another problem was that goods have to be warehoused two months prior to delivery to ultimate buyers. With this problem facing your customer, the only protection the bank had if it decides to help was in the transaction itself.

With this situation facing your customer, candidates were required to indicate the details of assistance on the assumption that the bank was prepared to assist Skillbase Limited out of this problem.

Problems identified upon going through the scripts revealed the following:

- Some candidates did not understand the question itself let alone providing solutions to put it to rest.
- Many of the answers given were simply outside the question. One therefore wonders why level III candidates could get completely lost on such a typical trade question.



- In a situation where the question was specific that the suppliers only insisted on sight payment through D/P basis, some candidates strangely listed the following as the type of assistance the bank should offer to the customer:

- Letters of credit
- Transferable letter of credit
- Back-To-Back credit
- Forfaiting
- Avalization etc.

Others were however, able to deal with the question with good understanding. Such candidates gave brilliant account and scored a lot of marks for their efforts.

This was the first least patronized question. Out of 94 candidates who attempted this question, 50 (53.2%) Passed and 44 (46.8%) Failed. It also attracted the most zero scores in a single question - as many as 25 (a quarter of one hundred) candidates engaged in this fruitless efforts. Just imagine this!!!



Question Five – Comment

This question tested candidates' understanding of particular bonds that your customer will need to enable them participate in a highly competitive international bidding for contracts. Duke and Associates are reputed construction engineers who are interested in large contracts from the United Arab Emirates (UAE). Such contracts required certain type of bonds as a condition to win any of them.

Broken into three sub-questions (a), (b) and (c) candidates were expected to state and explain the type of bonds that may be required under such overseas contracts and most importantly, the purpose each bond was intended to fulfill.

Candidates were also required to state any legal problems likely to affect both Duke and Associates and their bankers in the course of issuing the bond.

Finally, candidates were expected to provide solutions that would protect both Duke and Associates and their bankers during the operational period of these bonds.

After carefully going through the answers for this question, we saw the following short comings that were identified as the main reasons for the abysmal performance for this question:



- Most candidates failed to pay attention to the question for better understanding.
- Most were completely lost with sub-questions (a) and (b) and produced answers that could not induce any marks.
- Serious lack of using terminologies to make things easier for themselves.
- Bonds are a very comfortable area of the syllabus and to receive such poor answers means candidates need to up their game.
- The following are type of bonds some candidates listed as needed in this international competitive bidding:
 - Third party certificate bond
 - Consular bond
 - Servicing bond
 - Nominated bond
 - Guarantee bond
 - Commitment bond, etc.

Candidates are advised in their own interest to be serious in future examination to avoid these unprofessional way of answering questions. **This is a BIG JOKE** - isn't it?

Granted that all those chaff above were bonds that even exist, none of them was fit for the purpose of the question. In an international competitive contracts of this nature, the first and most important bond required is a **Bid/Tender Bond** from the bankers of Duke and Associates. Its purpose is to ensure that when the Bid is won, the contract would be taken up to avoid the burden of having to open and go through the same tender process again. It speaks of the credibility of Dukes and Associates and assures the awarding agency that all is well with your customer.

The next bond needed is to attest to the fact that the winner at the Bid/Tender stage has the capabilities to perform and fully execute the contract. The only bond available to fit this purpose is **Performance Bond**.

Legal problems include **Unfair Calling** of the Bond and the fact that the bank should not be **Negligent**. This is to avoid any fraudulent claim during the stay period of the contract.

Protection include **Counter-Indemnity** for the bank and **Insurance Support** for the customer against unfair calling/fraudulent claims.

As many as 112 candidates attempted this question. 63 (56.3%) Passed and 49 (43.7%) Failed. Of those who failed, 5 of them scored zero mark.



Question Six – Comment

This question tested candidates' understanding of secured methods of payments for suppliers who were insisting as the only condition to supply goods to your customer, Auto Warehouse Ltd. This was one of the two-part question of (a) and (b).

The other part of the question had to do with your assistance to the same customer who wants clearance of goods locked up at the port because the covering documents of title have not been received.

In both cases, candidates were expected to give only bullet points on the various secured methods available. The following problems were identified:

- There were all indications that most candidates could not understand “secured methods of payment”.
- Most candidates wrote at length on one particular secured method of payment and left the others. The essence was to determine how many secured payment methods available under the issue before you as a banker to deal with the customer's issue.
- A candidate wrote as many as six pages on letters of credit and earned on 3 marks on compassionate basis for the entire question.



- Transferable or BTB credits were not required in this answer as many candidates gave as their answer.
- It was also identified that many candidates were not able to deal with such practical situations where customer needed the bank's help the most – which indicates we have no business to be in that advising position.
- Some candidates surprisingly listed the following as the secured methods of payment they would offer the customer:
 - Electronic transfer
 - SWIFT
 - International money order
 - Postal money
 - Cheque
 - Telegram

Candidates are cautioned to give answers that address particular problems before them to win customers' confidence for continued business. Let's avoid giving reckless advice to customers as professional bankers. This attitude obviously does not grow trade and for that matter business for our banks and customers.



The various secured methods expected from candidates were:

- ✓ Confirmed letter of credit
- ✓ Documentary collection – both D/P and D/A
- ✓ Bank accepting draft for customer
- ✓ Avalization of bill of exchange
- ✓ Straight forward Performance Bond
- ✓ Counter-indemnity taken from customer in favour of bank

On the (b) part of the question, candidates were expected to proceed as follows:

- ✓ Bank should arrange indemnity in favour of the shipping company
- ✓ The indemnity should have an expiry date
- ✓ This will affect customer's existing facilities with bank
- ✓ Counter-indemnity taken from customer in favour of bank
- ✓ Letter of hypothecation in favour of bank
- ✓ Customs duties/VAT should be taken into account.

This question was unfortunately poorly answered by most candidates and a lot of good marks were lost as result.

This was a very easy and practical question we expected candidates to have taken advantage to pass the paper – but that was not the case. From our observation, candidates failed in most cases to analyze the scenario in a question before planning their answers for it.

Candidates should try to find out what is in a question before giving out the answers. This approach will enable candidates plan out their answers and eventually move away from what has become an **unrelated answers to questions**.

Your scripts are expected to relate closely to the issues raised in the questions. Remember, you are expected to give your opinion through the answers you are writing down. Your good answer is very valuable to the Institute as a whole so please don't just scribble anything on paper and call it answer!

The question attracted as many as 138 candidates. Unfortunately only 31 (22.5%) managed a Pass. All the remaining 107 (77.5%) woefully Failed with 7 scoring cool zero mark.

Question Seven – Comment

This was a four sub-question on a letter of credit being available with the nominated bank by the following:

- a) Payment
- b) Negotiation
- c) Acceptance
- d) Deferred payment undertaking.

This was an intended give-away question to candidates but unfortunately became the most horrible answers ever recorded in any sitting of this paper, to say the least. Candidates did not know exactly what they were answering. Scripts produced had no relationship with the meaning of terminologies for a letter of credit being available by any of the 4 methods listed above. Most candidates did not have the understanding of the question and dishonestly decided to scribble anything down for answers.

The use of the word Acceptance drove most candidates to quote URC 522 in such a typical documentary credit question and continued referring to documentary collection as if these candidates did not read the question they were proffering answers for marks. One kept wondering what was really at stake.

- A candidate had this answer “By Negotiation, both parties go to the negotiating table to discuss interest of one another”.
- Again, there was this definition for Negotiation: “Negotiation is where another bank comes in and issues an additional letter of credit or raises a new letter of credit in addition to the existing one”
- Most candidates continued to use URC 522 to precede any sentence on a letter of credit question
- “Acceptance is an authority note issued by the buyer to the bank so when goods arrive, his account can be debited”.
- Most candidates were completely silent on Deferred Payment Undertaking.

I feel sad because I have never marked such a low standard scripts like this before and feel worried about the future of this program. Remember, this is a fully Chartered Institute of Bankers

As the most patronized question, as many as 160 candidates attempted it. 57 (35.6%) Passed and 103 (64.4%) Failed with 13 candidates scoring zero mark.



Question Eight – Comment

This last question tested candidates knowledge on how conversant they were with the latest version of International Commercial Terms (INCOTERMS, 2020), on of the most important brochures of the ICC Publications.

Candidates simply ran away from it completely to avoid gnashing of teeth and lost of marks. Indeed, it was the fleeing away from this simple question that landed most into question 7 which turned out only mockery answers. All these tricks go to accentuate candidates' inadequate preparation towards the examination. Both students and candidates should note that any question on Incoterms means the current version and nothing else. The topic Incoterms has always been candidates' favorite until the coming of Covid-19.

Candidates are to note that Incoterm will continue to appear until examination results show they are completely on top of it.

Candidates were expected to name the only one Old Term deleted and the only one New Term brought on board. These were DAT (Delivered At Terminal) and DPU (delivered at Place Unloaded). DPU is the only term in which the goods are unloaded at destination, destination here does not mean only (port, airport, dock etc.) but likewise any other point in the country which has facilities for unloading of the goods from the means of transport, such as for example a factory or warehouse.

Risks transfers from seller to buyer when the goods have been unloaded.

Candidates were also expected to comment on the term FCA (Free Carrier) which Incoterm 2020 brings in an option of demanding an on-board Bill of Lading that confirms goods have been loaded on-board the vessel.

Finally, candidates were expected to comment on two terms of CIP and CIF which now has a different coverage of transport insurance. The seller is under an obligation to take out contract transport insurance cover in favour of the buyer with extensive coverage, which corresponds to Clause A of the Institute of Cargo Clauses.

Nevertheless, the parties may agree to take out insurance which offers reduced coverage (Clause C of the Institute Cargo Clauses).

This was the least patronized question among the lot. Of the 174 candidates who sat for the paper, as low as 7 attempted this question. At the end of it, 3 (42.9%) Passed while 4 (57.1%) Failed. There was no zero score.

