



**CHARTERED INSTITUTE OF BANKERS (GHANA)**

**ASSOCIATESHIP EXAMINATION**

**LEVEL III**

**INTERNATIONAL TRADE FINANCE**

**OCTOBER 2022**

NB:

1. Read the instructions on the cover of the answer book.
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**.
8. **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 book.
9. **TOTAL NUMBER OF QUESTIONS IN THIS PAPER IS EIGHT**

## SECTION A

### Question One

Your customer, Adonteng Traders Limited has finished all the registration formalities to take advantage under the new continental trading booming in Africa. Specializing in export of food throughout the continent, Adonteng Traders have negotiated with South African buyers for supply of assorted foodstuff. The arrangement allows them to draw bill of exchange on buyers immediately after shipment for full payment after 90 days.

Because of restricted profit margins over the past few months due to the Russian-Ukraine problem, and a shortage of working capital, the customers called to see you on 30 March to seek your advice on how best they can finance this transaction worth USD250, 000 falling due on 30 June. The credibility of the South African buyers is highly undoubted. Adonteng Traders are seeking funding from your bank for three months in either Ghana Cedi equivalent or USD250, 000 and would pay off when final proceeds are due from the buyers.

Additional information available on 30 March is as follows:

(i) **USD/GHS**

Spot	7.7120	7.7160	
1 month forward	0.035	0.043	Cedis disc
2 months forward	0.051	0.063	Cedis disc
3 months forward	0.060	0.065	Cedis disc

- (ii) Base rate is 19.0%
- (iii) US 3 month LIBOR rate is 5.25%
- (iv) Adonteng Traders is borrowing dollars from your US correspondent bank at 1.5% over US LIBOR rate.
- (v) For interest on USD borrowing, kindly use mid-rate to convert.
- (vi) Your customers do not purchase goods for which they have to pay in foreign currency.

**REQUIRED:**

- (a) By what methods can your customers be protected from foreign exchange risks whilst 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 cedis proceeds which each method would produce, stating which of the two options is better for Adonteng Traders. **[10 marks]**
- (d) Set out a formula which your customers would use to compare cedis and foreign currency borrowing costs, taking into account, where appropriate, the advantages or disadvantages of forward cover. **[6 marks]**

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

**[Total Marks 20]**

**Question Two**

Farm Technologies Ltd is an agrochemical company in Tokyo, Japan dealing in wholesale distribution. The company has entered into a contract to import agricultural chemical products from Bayer AG in Leverkusen, Germany. The suppliers have insisted on the use of documentary credit which has been agreed by Farm Technologies Ltd. Some of the major terms under this credit are as follows:

- In favour of : Bayer AG, Leverkusen.
- For the account of : Farm Technologies Ltd, Tokyo
- Expiring : November 25
- Amount : About JPY12,900,000
- Covering : About 600 metric tons of agrochemicals to be shipped in

two approximately equal installments, one *during* the first half of July and one *during* the first half of August

- Price : JPY21, 500 per metric ton CIF Tokyo.

Drawings under the credit will be as follows:

- 95% of the value of a provisional invoice upon presentation of documents strictly in order. The remaining 5% will be available against final invoice accompanied by an independent weight and analysis certificate showing the final weight and chemical analysis.

On 25 May the beneficiary asks you to cover their receivables forward in the foreign exchange market as follows:

- i. Arrange forward cover immediately in respect of each of the value of 300 metric tons shipment.
- ii. Upon presentation of documents, close out any differences between the forward contract amounts and the actual values claimed.
- iii. Ignore forward cover for the balance to be claimed in October.

The documents were presented in order on the following dates:

15 July: Documents showing shipment of exactly 294 metric tons

10 August: Documents showing shipment of exactly 315.79 metric tons

31 October: Final invoice claiming an agreed figure of JPY48, 950. This figure represents the net settlement of the remaining 5%.

You were asked in early May to confirm this irrevocable documentary credit on behalf of a Japanese correspondent bank.

## **REQUIRED**

Using the following rates of exchange between Euro and JPY displayed by Commerzbank, Frankfurt, where you work at the Trade Finance Department, calculate the Euro sums Bayer AG will receive on the appropriate presentation dates.

25 May	Spot	134.95	135.45
	1 month forward	1.30 yen	1.15 yen premium
	2 months forward	2.15 yen	1.95 yen premium
	3 months forward	2.50 yen	2.30 yen premium
	6 months forward	4.75 yen	4.65 yen premium
15 July	Spot	130.00	132.00
10 August	Spot	140.50	142.25
31 October	Spot	133.80	135.25

Note:

- 1) For the purpose of this question, Commerzbank and the beneficiary assume that shipments and presentation of documents will be made on the same day.
- 2) Ignore letter of credit charges as these are for buyer's account.
- 3) Ignore any close out of figures of less than 100 yen.

**[Total Marks 20]**

### **Question Three**

Agribusiness Plc. is a large corporate in the commodity industry specializing in mango production around Somanya and Afram Plains. After surviving the Covid-19 pandemic, which nearly collapsed the company, Agribusiness is on its feet firmly and now leading the export of fresh mangoes in the West African sub-region. Taking advantage of the African Continental Free Trade Area (AfCFTA), the company is now looking beyond its European buyers to meet the demand needs of other African countries.

Last week, the Chief Executive Officer and the Chief Operating Officer invited you to their warehouse to discuss their export contracts with you. Both you and your customers were very happy because this transaction will enable them to start paying off the loan facilities your bank has extended to them. These four contracts are for the export of 20 tons of fresh mangoes to

Switzerland, New Zealand, Zambia and Botswana in the ratios of 0.35; 0.30; 0.15 and 0.20 respectively. One month after the meeting at the warehouse, Agribusiness engaged Sintim Freight Forwarders to handle the export orders to the buyers. Goods were eventually shipped and related documents submitted through your counters for payments which were expected in exactly one month's time in Ghana Cedi for your customer's account. On 1<sup>st</sup> September, the company entered into one-month forward exchange contract with your bank to hedge their eventual expected proceeds.

**Price per ton at CIF values to their respective destinations are:**

Switzerland	New Zealand	Zambia	Botswana
CHF 3, 410	NZD 5, 783	ZMW 58, 765	BWP 44, 970

**September 1<sup>st</sup> rates quoted by your bank are as follows:**

Spot Rates		One Month Forward
CHF/GHS	8.2350 - 8.2365	0.047 - 0.053 Cedis dis.
NZD/GHS	4.8610 - 4.8625	0.023 - 0.032 Cedis dis.
USD/GHS	7.8530 - 7.8545	0.032 - 0.040 Cedis dis.
GHS/ZMW	2.1000 - 2.1015	0.025 - 0.035 Kwa. dis.
GHS/BWP	1.5715 - 1.5725	0.040 - 0.053 Pula. dis.
October 1 <sup>st</sup> Spot Rate		One Month Forward
USD/GHS	7.8450 - 7.8465	0.35 - 0.45 Cedis dis.
NZD/GHS	4.8590 - 4.8610	0.018 - 0.022 Cedis dis

All the expected export proceeds were received by your bank on due date except the one from New Zealand where the buyer could not clear the goods due to problems at Port Nicholson, Wellington. Agribusiness has accordingly extended the forward contract by one month with your bank.

**REQUIRED**

a. Calculate the amount of foreign currency from each buyer.

**[4 marks]**

- b. Calculate the applicable forward rates. **[8 marks]**
- c. Calculate the amount credited to your customer's GHS account from the foreign currencies received on their behalf. **[4 marks]**
- d. Close out and extend the New Zealand transaction and show the total GHS your customer received under the four export contracts. **[4 marks]**
- [Total Marks 20]**

## **SECTION B**

### **Question Four**

Builders Merchants Ltd, customers of your bank, supply the building construction industry with a wide range of building materials and products. Their Financial Director, Mr. Kwame Annoh, calls to see you to discuss a CIF contract, which has been signed, to supply a range of fittings and building materials to an overseas buyer.

During the conversation you discover that all the goods will be bought from overseas and that all the suppliers are insisting upon secured methods of payment. The Financial Director asks you to suggest a method by which his company can be fully protected, since cash flow considerations are causing some concerns at the present time. The overseas CIF contract is expressed in sterling but one supplier based in Germany, is insisting upon being paid in Euros.

Required

- a) A brief description of basic instrument which would be appropriate in answering the needs of the Builders Merchants Ltd. Indicate why your suggestion will cater for your customer by assisting them to overcome their cash flow difficulties and why it will also give some comfort to their potential suppliers. **[12 marks]**

- b) State briefly whether the method described by you in (a) is or is not, appropriate to the contract with the German supplier. Give reasons for your answer. **[2 marks]**
- c) A compromise that you would consider arranging for Builders Merchants Ltd. which would assist them in complying with the request of the German supplier, bearing in mind that the German company requires security of payment. **[6 marks]**
- [Total Marks 20]**

### **Question Five**

Mr. Bob Ferguson, senior director of your customer, Adelaide Ltd is negotiating for the first time with suppliers abroad to purchase some outdoor garments, which are at present unobtainable in the UK. The terms of payment which the sellers have suggested are a 90 days' sight draft D/A with presentation through a UK bank. You understand that the presentation will be subject to Uniform Rules for Collections (and the shipping terms are to be CFR UK port). Your customer believes that he will have the opportunity of examining the goods when they are received in the UK and that, if they are not in accordance with specification, he can refuse the goods and will not be liable to pay the sellers, since all charges will be against the goods.

### **Required**

- a) Write brief notes on the terms of payment mentioned above; **[4 marks]**
- b) Indicate the instructions you would expect to see on the collection order; **[8 marks]**
- c) What would you say to the suggestion by Mr. Bob Ferguson that, if goods were not in accordance with specification, the company could refuse to take up and pay for them? **[6 marks]**
- d) How can the drawee obtain a measure of protection with D/A collections? **[2 marks]**
- [Total Marks 20]**



### **Question Six**

State the “*Issuing Bank’s Undertaking*” as enshrined in Article 7 a (i – v), b and c when it issues a credit on behalf of its customer under the current International Chamber of Commerce (ICC) Publication in respect of Uniform Customs and Practice for Documentary Credit – UCP 600.

**[Total Marks 20]**

## **SECTION C**

### **Question Seven**

The African Continental Free Trade Area (AfCFTA) is organizing training programs to grow the Small and Medium-sized Enterprises (SMEs) and most importantly to deepen their understanding on international trade and how they can take advantage of the banking system for efficient operation and expansion of their businesses. As Head of Trade Finance of your bank, you have been engaged as a resource person by (AfCFTA) to take Chief Operating Officers of these SMEs on the following topic: “**The Role of Banks in International Trade**”

#### **REQUIRED:**

List these roles (in bullet points only) under the various roles for one mark each.

*Note: Long and detailed descriptions are not required.*

**[Total marks 20]**

### **Question Eight**

During the summer of 2020, Geneva-based Mercuria Energy Group said it had been the victim of cargo fraud following its purchase of 10,000 tons of copper blister.

When the cargoes started arriving in China, it found containers full of painted stones instead.

The bizarre case happened despite security and inspection controls.

About 6,000 tons were loaded for shipment in more than 300 containers on eight vessels.

But before its journey from a port near Istanbul, the copper was switched with paving stones, spray-painted to resemble the semi-refined metal. Once the vessels were at sea, Mercuria paid \$36m over five installments. The fraud wasn't discovered until the ships began arriving in the Chinese port of Lianyungang.

Mercuria, one of the five-biggest energy traders in the world, is seeking redress in Turkish and UK courts against the copper supplier, Bietsan Bakir.

Turkish police have taken a number of people into custody in relation to the fake copper scheme. "Suspects have been taken under custody who are thought to be involved in the various parts of this organised crime against Mercuria," the company said in a statement while thanking the Istanbul Financial Crimes Department.

*Note: All parties in all commercial transactions should be aware of the potential for fraud. In some cases, those parties you negotiate with may not even be aware of the liability they pose. The above fraud case gained global attention through social media on March 9, 2021.*

## **REQUIRED**

State five (5) remedies to fraud in international contracts.

**[Total Marks 20]**