



**CHARTERED INSTITUTE OF BANKERS (GHANA)
ASSOCIATESHIP EXAMINATION**

LEVEL III

INTERNATIONAL TRADE FINANCE

APRIL 2023

1. NB: 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**
10. **DO NOT OPEN THIS QUESTION PAPER UNTIL INSTRUCTED TO DO SO.**

SECTION A

Question One

Timber International are global exporters of first class sawn timber. Though they have their large buyers in Europe, they have taken advantage of the AfCFTA for further expansion. As your customers, they have come to discuss the finance of contracts to supply “Odum” kiln dried sawn timber to their new buyers in North Africa and the Gulf – Libya, Tunisia and Saudi Arabia. Timber International had agreed with these buyers under confirmed irrevocable letters of credit under the following details:

Shipments:

10 May	40 cubic meters to Libya at Libyan Dinar – LYD 5, 386.50 per cubic meter
14 June	50 cubic meters to Tunisia at Tunisia Dinar – TND 3, 517.50 per cubic meter
8 July	45 cubic meters to Saudi Arabia at Saudi Riyal – SAR 4, 168.50 per cubic meter

Payments:

Ten days after shipment date, Timber International will issue a one-month bill of exchange on their new buyers. Proceeds of these drafts will be wired by SWIFT payment platform to your bank on due dates. To minimize risks, the company has completed a one-month forward exchange contracts with your bank on the dates drafts were drawn by Timber International on these buyers.

Timber International decided to buy the processed Odum timber from local suppliers at an agreed price of Euro 832 per cubic meter FOB to any of the three ports of destination - Benghazi, Tunis and Jeddah Islamic ports respectively.

It is further agreed that payment to the local suppliers will be made exactly seven days after shipment date and within which period your bank would have already received the necessary export documents from the ultimate suppliers. To meet timely and uninterrupted payment to suppliers, Timber International applied for an overdraft facility in local currency to finance this business. In each case, payment under the credit was made to the local suppliers in euros on the agreed dates as appropriate, and debited to the cedi overdraft account accordingly.

Please note the following additional information:

- Ghana Reference Rate is 33.25% p.a.
- Your bank takes a spread of 2% p.a. on facilities.
- Day basis for overdraft interest calculation is 360 days for a year with each month also taken as 30 days. Kindly round-up all interest calculations amount and post as a single figure after all postings have been made.

Required

On the basis of the following additional information, *calculate the net profit in Ghana Cedis* for your customer, showing:

- Schedule of Payments to Suppliers (3 marks)
- Schedule of Receipts from Buyers (6 marks)
- Overdraft account of your customers showing all postings (11 marks)

Rates for the transactions are detailed below:

	Spot			One month
17 May	EUR/GHS	13.5200	13.5250	0.0010 - 0.0015 cedis discount
21 June	EUR/GHS	13.5305	13.5350	0.0025 – 0.0030 cedis discount
15 July	EUR/GHS	13.5525	13.5575	0.0040 – 0.0045 cedis discount
	Spot			One month
20 May	LYD/GHS	2.6000	2.6100	0.0150 – 0.0200 cedis discount
24 June	TND/GHS	4.0500	4.1500	0.0050 – 0.0100 cedis discount
18 July	SAR/GHS	3.4000	3.4105	0.0030 – 0.0450 cedis discount

[Total Marks 20]

Question Two

Eagle Eyes Limited (EEL), took advantage of the business prospects under the National Pensions Regulatory Authority (NPRA) and registered as a Fund Manager/Custodian under the law. They chose the High Street branch of your bank and have since proved to be very wealthy customers. Today, you are in the seat managing affairs of the branch. They called on you to discuss movements in their investment as a new strategy to manage their business under the current economic challenges the country is experiencing.

They intend to disinvest their US dollar fixed deposit of US\$950, 000 which is earning 13.98 percent per annum, sell to your bank for local currency and take advantage of rising Government Treasury bill rates which has seen a major increase on the back of the prime rate. Being much aware of the financial terrain, EEL is hedging its risk through a six month forward contract as it still holds some US dollar obligations in its books.

Your bank's borrowing rates are as follow:

US dollar 6 months fixed	13.98% p.a.
GH cedis 6 months Treasury Bill	27.35% p.a.

On the foreign exchange market, your bank is quoting the follow rates for today:

Spot	9.8750
6 months forward	0.7125 cedis discount

Required:

- In bullet point form, indicate what you would discuss with your customer regarding their investment re-pricing plans. [10 marks]
- Use the spot and forward margins and interest rates shown above to illustrate your answer. Indicate the validity or otherwise of the strategy of EEL. [10 marks]

[Total Marks 20]

Question Three

In each of the five scenarios below, you are *required* to state clearly the following:

- A. The type of rate quotation and its applicable rules on the market. (1 mark)
- B. The position of your bank in the transaction. (1 mark)
- C. The applicable rate for your calculation. (1 mark)
- D. The settlement amount for your customer's account. (1 mark)

1. Cement Solutions Ltd (CSL) is a new manufacturing company taking advantage of the housing deficit of the country to produce quality and affordable cement for the real estate industry. They have imported clinker from a Norwegian company worth NOK 750, 000.00. Payment is due tomorrow and the Accountant called the sales desk at your bank's Treasury for the rate to know how much will be debited to their Ghana Cedi account at your branch at Ridge, Accra.

Your bank's rate is as follows:

Spot	NOK/GHS	1.2210	1.2235
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2. Asesewa Quarries Ltd, (AQL) taking advantage of the AfCFTA, shipped limestone to a mining company in Angola costing Angolan Kwanza 3, 000, 000.00. AQL did not cover forward and want to know how much the company will receive in Ghana Cedis as payment is due today. AQL keeps its business account with your bank's branch at Somanya. See rates below:

Spot	GHS/AOA	39.6805	39.9815
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3. Dampare & Sons are dealers in quality rice on the Ghanaian market and have been importing mainly from the Asian millers which are always quoted in US dollars. The uncertainty of the depreciating local currency is affecting their profit margins. Under the AfCFTA they now get their supplies from neighbouring Nigerian millers which have improved their bottom-line. The Accountant called at your Tema Market branch to make payment for NGN 15.0 million and your quote for the day is as follows:

Spot	NGN/GHS	0.0285	0.0295
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4. The Head of Finance of University of KwaZulu-Natal, which has been chosen among the ten universities doing Medicine in South Africa, called at your Durban branch this morning to make payment for GBP 40,750.00 to a hospital equipment supplier in London to the debit of their local currency account. The value date is today and your bank has quoted the following rate from its trading floor:

Spot	GBP/ZAR	21.9510	21.9835
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5. You are in charge of the trading desk for foreign exchange operations at Commerzbank Tower, Frankfurt Main. You picked up an in-coming phone call and the counterparty, your well-known customer, requested to pay GHS 775, 000.00 to a beneficiary company in Adum, Kumasi for goods imported. Based on your bank's electronic screen displaying the rates for today as shown below, calculate how much should be debited to your customer's euro account:

Spot	EUR/GHS	13.5605	13.5675
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[Total marks 20]

SECTION B

Question Four

You are the manager of Merchant Bank Ltd, which maintains the account of Johnson Company Ltd (JCL), a local generator dealership. JCL's Managing Director, Kingsley Arthur, has advised you today that the company has decided to purchase new generators from manufacturers in Europe because the terms of local suppliers are no longer favourable to their business.

Mr. Arthur informs you that he is in negotiations with a new Egyptian buyer, Al Watany Ltd for the export of the generators to Cairo for a total cost of USD 500, 000.00.

Some of the contract details are that the Egyptian buyers would have to make an advance payment of 20% upon signing the contract. Again, the buyers, Al Watany Ltd, should pay the last 10% immediately after shipment of the generators.

Mr. Arthur is facing two major problems in the negotiations:

- a) Since it is a new trading relationship, Al Watany Ltd is reluctant to agree to the 20% deposit when the contract is signed. Al Watany Ltd is concerned that the money could be lost if the contract did not work out as expected.
- b) Al Watany Ltd also insists on paying the final 10% of the contract price two months after shipment, so that they can check the generators are in good and acceptable condition on arrival in Cairo. Mr. Arthur is worried that the delay in payment will adversely affect the company's cash flow.

Required:

- i. Identify **two** bank products that would help to overcome the problems in the commercial contract negotiations between Johnson Company Ltd and Al Watany Ltd. [5 marks]
- ii. Explain how each of these products would operate and advise the companies of the possible effects on their businesses by using these products. [15 marks]

[Total Marks 20]

Question Five

You are the head of your bank's Trade Department. Through the bank's Corporate Department you received an application for the establishment of documentary letter of credit (L/C) from a customer, Medicare & Associates for the importation of hospital equipment from Germany.

You supervised the issue of the credit in favour of the beneficiary and advised it through your euro correspondent, Commerzbank, Frankfurt. The credit amount of Euro 350, 000 was the total cost of the hospital equipment at CIF, Tema port.

Upon receiving the L/C, Commerzbank immediately advised the beneficiary suppliers who organized the goods and shipped them under the CIF terms to Tema port. Documents were accordingly sent to the counters of Commerzbank for payment as the credit was under sight payment.

After thoroughly examining the documents, Commerzbank paid the beneficiary under the compliant presentation and sent the documents to your bank for reimbursement.

Upon receiving the documents, your examination team went through for any discrepancy but found none. Unfortunately, Medicare & Associates had no funds in their account to meet the payment of the reimbursement claim from Commerzbank.

Your bank had to reimburse Commerzbank immediately in accordance with Article 7 of UCP 600 – which is categorical on the Issuing Bank’s undertaking when it issues a documentary credit. You released the documents received from Commerzbank to customers and goods were cleared to their warehouse which was eventually sold to ultimate buyers. Strangely enough, Medicare & Associates could not pay your bank – citing Covid-19 problems as their reason for the failure to pay.

Medicare & Associates are now asking for the Euro 350, 000 to be converted into a loan facility and be given time to pay.

Required

- i. State the undertaking/responsibilities of your bank with respect to UCP 600 of your bank which agreed to issue this documentary credit on behalf of its customer. (9 marks)
- ii. Indicate what could have been done to prevent this from happening? (11 marks)

[Total Marks 20]

Question Six

- a. What is Export Factoring? [4 marks]
- b. State 8 differences between factoring and invoice discounting. [16 marks]

[Total - 20 marks]

SECTION C

Question Seven

You are in charge of the Foreign Remittances Department of your bank. About a week ago, a certain man came to your office to enquire whether you have received any remittance on his behalf. When asked how much he was expecting he said the amount was USD 23, 745.00 from his brother in America, to which you replied in the negative. He had a few discussion with you, gave you his name as well as cell phone number and left.

Three days after, you received a SWIFT message MT910 (confirmation of credit advice) with an amount of USD 23, 745.00 from Citibank N.A so you called him. He gave his account details of your bank's branch at Somanya. Upon this you gave instruction for payment to be processed into his current account in local currency. Customer withdrew the funds as soon as it hit the account explaining to the branch manager that it was for a building project and had to quickly buy the building material before prices escalate. A week later, you returned from a meeting at Head Office to find a SWIFT message on your desk from Citibank N.A requesting for immediate return of the paid out USD 23,745 received under MT910 as it has been confirmed by the FBI as a fraudulent transaction. In fact, Citibank is urgently demanding authorization message from your bank to debit its Nostro account in settlement.

Required:

Explain what you could have done to prevent this from happening to your bank. Your answer should be a ten (10) bullet point format. **[Total Marks 20]**

Question Eight

Documents are very important in international trade as they control the movements of goods and in some cases give legal titles to true owners. Briefly explain ten documents which are neither financial nor transport in nature but which nonetheless, are equally important in international trade. [2 marks each]

[Total Marks 20]