



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

LEVEL III

INTERNATIONAL TRADE FINANCE

APRIL 2024

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 of 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 1

Zakaria Construction Plc. (ZCP) are your customers specialised in the construction of highways. Sometime in February, your customer approached you to discuss their intention to apply for a Bid Bond to participate in an International Competitive Tender by the Ministry of Roads and Highways. The Tender is for the award of a contract to construct the Eastern Corridor Road. After discussions with your bank, the Bid Bond was issued in favour of Ministry of Roads and Highways. On March 1, Mr. Adamu, the Chief Finance Officer of ZCP, called to inform you that the company has successfully won the Tender and had been awarded a contract to construct a portion of the main project. At the meeting, Mr. Adamu showed other documents confirming the award of the contract – which also showed the contract value as USD1.2million. The meeting discussed at length, how the bank could assist ZCP to obtain an Advance Payment Bond in favour of Ministry of Roads and Highways to enable the company access 11.25% initial Mobilization Funding of the contract value.

The following events took place:

- a. On April 1, the Advance Payment Guarantee was issued and submitted to the Ministry of Roads and Highways.
- b. The 11.25% Advance Payment Funding is confirmed by Ministry of Roads and Highways and will be received by your bank exactly in three months' time, on July 1, for customer's account.
- c. Also on April 1, the company entered into three months' Forward Contract to sell the US Dollar proceeds of the 11.25% Advance Payment to your bank on arrival of funds.

ZCP has to acquire materials before main construction works begin in July and so, have requested your bank for immediate funding and have proposed two options as follows:

- i) To borrow the **US Dollar amount** of the 11.25% Advance Payment for three months and repay when it is received on July 1.
- ii) To borrow **Ghana Cedi equivalent of the US Dollar amount** for three months and repay from proceeds of the three months Forward Contract.

Rates available for the day are as follows:

April 1,	Spot	10.2570	10.2640
One month forward		0.0085	0.0095 cedis discount
Two months' forward		0.0115	0.0125 cedis discount
Three months' forward		0.0135	0.0145 cedis discount

You are also given the following additional information:

- a. Term SOFR (Secured Overnight Financing Rate) which has replaced the LIBOR, is quoted this morning for 3 months US Dollar at 5.1% with your bank's margin at 4.5%.
- b. Commitment and Arrangement Fees are charged separately on Dollar borrowing at 1.50% and 0.50% respectively.
- c. Interest and other charges on US Dollar borrowing should be translated at middle-rate.
- d. For ZCP, your bank will lend local currency at 2% above its Base Rate of 21.75% p.a.
- e. Processing Fees for Cedi Facility is 1.0%.
- f. Cedi Facility also attracts Group Insurance Commission of 1.50%.

REQUIRED

Calculate **each** of the **two options** and choose the most favorable one from your customer's point of view, stating your reason. **[Total Marks 20]**

QUESTION 2

(a) What do you understand by Option Forward Contract? [4 marks]

(b) From the following scenarios, calculate the appropriate rate for your customer, by specifically choosing the correct *Option Rate* applicable in each circumstance:

- i. Your customer wishes to take out an Option Contract on 1 March for the period 1 March to 1 April, to buy US\$30,000 to pay for goods imported from the USA. Your bank's rates are as follows:

1 March	Spot	USD/GHS	11.3450	11.3540
One month forward			0.0520	0.0545 cedis dis [4 marks]

- ii. To manage the risk of its Foreign Exchange, your customer came to arrange for Forward Exchange Contract for export proceeds of NGN 7.8 million due within the next two months. Your customer wishes to take out an Option Contract on 1 March for the period 1 April to 1 May to sell the Foreign Currency to your bank. Your quoted rates are as follows:

1 March	Spot	GHC/NGN	68.0110	68.0125
One month forward			0.0120	0.0145 naira dis
Two months' forward			0.0165	0.0195 naira dis [6 marks]

- iii. The Import Bill of your customer falls due within the next three months. The customer wishes to take out an Option Contract on 1 March to pay the Swiss Franc 25,000 anytime between 1 May and 1 June. Rates are as follows:

1 March	Spot	CHF/GHS	12.8215	12.8265
Two months' forward			0.0865	0.0890 cedis dis
Three months' forward			0.0910	0.0945 cedis dis [6 marks]

[Total Marks 20]

QUESTION 3

Held and Sons are Stockholders in London whose account is operated on 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 month after shipment.
b. Denmark	DKK 1,560 CFR, London	Draft drawn payable two months after shipment (Collection Charges for buyer).
c. Turkey	TRY 2112 CIF, London	Irrevocable Documentary Credit payable three months after shipment.

Using additional information set out below, show by calculating the cost of 100 tons of the steel, which of quotations (a), (b) and (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 for one month (considered as 1/12 of a year)	15% pa.

Ignore all other possible charges.

It is to be assumed that your customers 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

- (a) Briefly describe why Foreign Banks maintain Bank Accounts in local currency abroad and how these accounts are funded and operated. [5 Marks]
- (b) List the risks to a bank of Assets held in this manner. [5 Marks]
- (c) What practical steps should banks employ to manage such Assets effectively? [10 Marks]

[Total Marks 20]

QUESTION 5

Your customers, Roofing Technologies (RT), located at Tema Industrial Area, are specialist manufacturers of roofing sheets. The company is finding it difficult to obtain supply of raw materials as their main Ukraine Suppliers have completely shut down due to the war with Russia.

The company has now identified a South African supplier, who can meet the raw material needs of RT, but only against Secure Methods of Payment. Goods will be shipped under CIF terms, Tema Port. In a meeting with the Chief Operating Officer today, you have been asked to establish an Irrevocable Letter of Credit in favour of the South African suppliers. Your customers advised you during the meeting that they do not understand the implications of this Secure Method of Payment to the new suppliers as they were used to Documents Against Acceptance with their Ukraine Suppliers.

In order to give them proper understanding, you are required to provide answers to the following:

- a) Define Documentary Credit under UCP 600. What implication does the definition have on Roofing Technologies? [2 marks each] [4 Marks]
- b) Mention **two (2)** risks each to RT and the beneficiary. [1 mark each] [4 Marks]
- c) Mention **three (3)** documents (excluding Bill of Exchange) which RT should call for. Mention **one (1)** detail on each document which RT would expect to find if the bank agreed to establish the Letter of Credit. [2 marks each] [6 Marks]
- d) Mention **three (3)** precautions that RT can take to ensure that they receive the right goods, while at the same time satisfying the seller's needs. [2 marks each] [6 Marks]

[Total Marks 20]

QUESTION 6

Sam Cheff Mining Ltd is your customer dealing in Mineral Prospecting in the Northern Region of Ghana. The company's team of engineers has identified a particular site along the Tamale-Bolgatanga Highway which they believe could have huge deposit of Gold. When the feasibility and sample details of Analysis Reports were submitted to the Board of Directors, they quickly took a decision to allow the company to import a state-of-the-art equipment to enable full scale drilling start as soon as possible.

The Managing Director called on you today to discuss issues affecting the company's business. He tells you that the equipment imported has arrived but is still at the Tema Harbour, unable to be cleared *because the Bills of Lading involved have gone missing*. As a result, the equipment has started incurring **demurrage charges** at the port; while at the same time, the company is incurring unnecessary labour cost due to idle time, as the workers are waiting for these machines to work with.

The Managing Director is visibly worried as he sits at the oval desk in your office, wondering what could be done to protect the company from these costs.

REQUIRED

Explain how the bank can help Sam Cheff Mining Ltd to clear the equipment from the port and the precautions the bank should take. **[20 Marks]**

SECTION C

QUESTION 7

a. Your bank's main US Dollar Correspondent Bank is JP Morgan Chase, New York.

i. Briefly define Correspondent Banking. **[2 Marks]**

ii. List **ten (10)** services that take place between your bank and JP Morgan Chase in this relationship. **[10 Marks]**

b. A Cocoa Farmer from Duayaw Nkwanta calls at your bank and offered to pay his son's University fees of USD15, 000 .00 to Santa Rosa University in California, USA. In making this payment today through your account with JP Morgan Chase, why would you be concerned with the following:

- i) Balance on the Nostro Account [2 Marks]
- ii) Value Date [2 Marks]
- iii) Account Details of Santa Rosa University [2 Marks]
- iv) Cut-Off Time [2 Marks]

[Total Marks 20]

QUESTION 8

Post-Shipment Finance refers to an Advance or Loan extended to the exporter on the strength of documentation after goods have been shipped to the importer. It is more popular in Cross Border Trade transactions. This facility is extended to the exporter either on *with or without recourse* basis and is also applicable to both Documentary Credit and Non-Documentary Credit transactions.

REQUIRED

With the above in view, **explain very briefly**, the following Post-Shipment Finance Products:

- a. Export Bill Negotiation [5 Marks]
- b. Export Bill Discounted [5 Marks]
- c. Advance against Banker's Acceptance [5 Marks]
- d. Advance against an Export Bill sent for Collection [5 Marks]

[Total Marks 20]