DIB-202 : INTERNATIONAL TRADE AND FINANCE

MAHMUDUR RAHMAN, CDCS
SEVP & HEAD OF DHAKA CENTRAL ZONE
ISLAMI BANK BANGLADESH PLC

CHAPTER – 01: BASIS OF INTERNATIONAL TRADE

SYLLABUS: THEORIES OF INTERNATIONAL TRADE, ABSOLUTE ADVANTAGE & COMPARATIVE ADVANTAGE, ISLAMIC APPROACH TO INTERNATIONAL TRADE, BALANCE OF TRADE & BALANCE OF PAYMENT

What is International Trade?

(Oct’ 2023) (May, 2023)(Nov,2022) (May,2022) (April,2020) (Oct, 2018)

- International trade is the exchange of goods, services, and capital between countries, across international borders.
- It involves the buying and selling of products and services across national boundaries, and it is conducted by individuals, companies, and governments.
- The purpose of international trade is to improve the efficiency and productivity of economies by allowing countries to specialize in producing goods and services that they have a comparative advantage in and to access goods and services that they are unable to produce themselves or can produce at a higher cost.
- International trade is essential for economic growth, development, and integration among nations, and it plays a crucial role in shaping the global economy.

Main areas of International Trade?
(Oct’ 2023)

International trade encompasses various aspects and areas that involve the exchange of goods, services, and capital across national borders. The main areas of international trade include:

- **Trade in Goods:** Exports and Imports of Physical Goods:
- **Trade in Services:** Export and Import of Services
- **Investment Flows:** Foreign Direct Investment (FDI) & Portfolio Investment
- **Intellectual Property Rights (IPR):** Patents, Trademarks, and Copyrights
- **Trade Policies and Regulations:** Tariffs and Trade Barriers & Trade Agreements
- **Trade Finance:** Letters of Credit and Trade Financing
- **Logistics and Transportation:** Shipping, Air Transport, and Logistics
- **Currency Exchange and Foreign Exchange Markets**
- **Global Supply Chains: Supply Chain Management**
- **Trade Balance and Current Account**
- **Trade in Agriculture and Natural Resources**

What are the advantages and disadvantages of International Trade?

(Oct, 2018) (April, 2018)

- **Advantages:**
  - **Increased economic growth:** International trade allows countries to access larger markets and to specialize in producing goods and services that they have a comparative advantage in, leading to increased productivity and economic growth.
  - **Access to a greater variety of goods and services:** International trade allows consumers to access a wider range of products and services at lower prices, enhancing their welfare.
  - **Increased competition:** International trade can promote competition, leading to innovation, better quality products, and lower prices.
  - **Greater efficiency:** International trade allows countries to produce goods and services more efficiently by taking advantage of economies of scale and specialization.
  - **Increased employment opportunities:** International trade can create new employment opportunities as businesses expand their operations and enter new markets.

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- **Disadvantages:**
  - **Job losses:** International trade can lead to job losses in certain industries, as companies shift production to countries where labor is cheaper or where they can take advantage of lower taxes or less stringent regulations.
  - **Dependence on other countries:** International trade can make countries dependent on imports of essential goods and services, making them vulnerable to supply chain disruptions, geopolitical tensions, or trade restrictions.
  - **Environmental concerns:** International trade can lead to an increase in greenhouse gas emissions and environmental degradation, as goods and services are transported across long distances.
  - **Unequal distribution of benefits:** International trade can lead to unequal distribution of benefits, with some groups and regions benefiting more than others.
  - **Cultural erosion:** International trade can lead to the erosion of cultural identity as foreign goods and services become more prevalent
- Overall, while international trade has its benefits, it is important to manage its potential negative impacts to ensure that it contributes to sustainable and inclusive economic growth.

What roles banks play in international trade (April, 2018)

- Banks play a crucial role in facilitating international trade by providing a range of financial services and products to businesses engaged in cross-border transactions. Some of the key roles that banks play in international trade include:
  - **Providing trade finance:** Banks offer a range of trade finance products, such as letters of credit, guarantees, and documentary collections, to help businesses manage the risks associated with international trade and to facilitate payment and delivery of goods.
  - **Facilitating foreign exchange transactions:** Banks help businesses to manage currency risk by providing foreign exchange services, such as currency exchange, currency hedging, and foreign currency accounts.
  - **Offering international payment services:** Banks provide businesses with a range of payment services, such as wire transfers, automated clearinghouse (ACH) transfers, and online payment systems, to facilitate cross-border payments.
  - **Providing credit and loans:** Banks offer credit and loans to businesses engaged in international trade to help them finance their operations, invest in new equipment or facilities, and expand their operations overseas.
  - **Acting as intermediaries:** Banks act as intermediaries between importers and exporters, facilitating the exchange of goods and services and ensuring that all parties comply with legal and regulatory requirements.
- Overall, banks play a critical role in supporting international trade by providing businesses with the financial services and products they need to manage risks, facilitate payments, and expand their operations globally.

How International Trade can develop economy? (April,2020) / International Trade is associated with national economy state your opinion. (May, 2023)

- International trade can have a significant impact on the development of an economy in several ways, including:
  - **Increased access to markets:** International trade allows countries to access larger markets for their goods and services, leading to increased demand and higher levels of output. This can create jobs and stimulate economic growth.
  - **Specialization:** International trade allows countries to specialize in producing goods and services that they have a comparative advantage in, leading to increased efficiency and productivity. This can result in lower costs and higher levels of output, which can drive economic growth.
  - **Increased competition:** International trade promotes competition, leading to innovation, better quality products, and lower prices. This can result in increased consumer welfare and greater efficiency in the allocation of resources.
  - **Access to capital:** International trade can provide countries with access to capital and investment opportunities, enabling them to finance development projects, build infrastructure, and create jobs.
  - **Knowledge transfer:** International trade can facilitate the transfer of knowledge and technology between countries, allowing for the development of new industries and the adoption of new production methods.
- Overall, international trade can provide significant benefits to economies, including increased economic growth, job creation, and access to new markets and capital. By enabling countries to specialize and take advantage of economies of scale, international trade can contribute to the development of efficient and competitive industries, driving innovation and productivity growth.

Explain :“International trade is a win-win game” (Oct,2016)

- The statement "International trade is a win-win game" refers to the idea that international trade can benefit all parties involved in a transaction, resulting in mutual gains and positive-sum outcomes. In international trade, both the exporter and importer can benefit from the exchange of goods and services, leading to a win-win situation.
- For example, when a country exports a product to another country, it generates revenue and creates jobs in the exporting country, while the importing country gains access to a product that it may not be able to produce domestically or may be able to purchase at a lower cost. In this case, both countries benefit from the exchange, creating a win-win situation.
- Similarly, international trade can lead to specialization and the division of labor, allowing countries to produce goods and services more efficiently and at a lower cost. This results in higher productivity and greater economic growth for both the exporting and importing countries, creating a win-win situation.
- However, it is important to note that not all parties involved in international trade may benefit equally. Some industries or individuals may face job losses or other negative impacts as a result of increased competition or changes in the global economy. It is therefore important to manage the potential negative impacts of international trade and to ensure that its benefits are distributed fairly.
- Overall, while there may be some challenges and complexities associated with international trade, the potential benefits of increased trade and cooperation between countries are significant and can lead to positive outcomes for all parties involved.

Discuss the features of international trade in the light of Islamic Economics/Shariah (April, 2017) (May 2023) / Discuss Islamic approach to international trade. (April, 2018)

- International trade plays an important role in the global economy and Islamic economics provides a unique perspective on the features of international trade. Here are some of the key features of international trade in the light of Islamic economics:
  - **Free trade:** Islamic economics advocates for free and fair trade among nations, without any restrictions or tariffs that could harm any party involved in the transaction. The goal is to encourage trade between countries, promote economic growth, and support the development of a just and equitable global economy.
  - **Fair distribution of benefits:** Islamic economics emphasizes the fair distribution of benefits from international trade, ensuring that all parties involved in a transaction are treated justly and equitably. This means that profits and benefits from trade should be shared fairly, and any unfair practices or exploitation should be avoided.
  - **Ethical considerations:** Islamic economics emphasizes ethical considerations in international trade, such as avoiding transactions that involve interest or any form of exploitation, promoting transparency and accountability, and ensuring that all parties involved in a transaction are aware of the terms and conditions of the trade.
  - **Promoting cooperation and mutual benefit:** Islamic economics encourages cooperation and mutual benefit between countries, rather than competition or conflict. The goal is to build relationships based on mutual trust, respect, and benefit, leading to economic growth and development for all parties involved.
  - **Social justice:** Islamic economics places a strong emphasis on social justice in international trade, ensuring that trade benefits the poor, marginalized, and disadvantaged. This means that trade policies and practices should be designed to reduce poverty, promote equality, and support sustainable development.
- In summary, Islamic economics provides a unique perspective on international trade, emphasizing the importance of free and fair trade, ethical considerations, mutual benefit, social justice, and cooperation. These principles can help to promote a more just and equitable global economy, and ensure that the benefits of international trade are shared fairly among all parties involved.

How Islamic approach to international trade different from traditional approach? (April, 2018)

- The Islamic approach to international trade is rooted in the principles of justice, fairness, and mutual benefit, and differs from the traditional approach in several ways. Here are some of the key differences:
  - **Fair and just trade:** The Islamic approach emphasizes the importance of fair and just trade, without exploitation, deception, or any form of injustice. This differs from the traditional approach, which often prioritizes profit above all else, and may involve practices that are considered unethical or unfair.
  - **Mutual benefit:** The Islamic approach emphasizes the importance of mutual benefit in trade, rather than competition or exploitation. This differs from the traditional approach, which may involve one party gaining an unfair advantage over another, or engaging in practices that harm other parties.
  - **Ethical considerations:** The Islamic approach emphasizes ethical considerations in international trade, such as avoiding transactions that involve interest (riba) or any form of exploitation. This differs from the traditional approach, which may prioritize profit above all else, even if it involves unethical or exploitative practices.
  - **Supporting economic development:** The Islamic approach encourages trade as a means of promoting economic development and reducing poverty. This differs from the traditional approach, which may prioritize the interests of wealthy nations or corporations over the development of less developed nations.
  - **Promoting social justice:** The Islamic approach emphasizes the importance of social justice in international trade, ensuring that trade benefits the poor, marginalized, and disadvantaged. This differs from the traditional approach, which may prioritize profit over the needs and interests of vulnerable populations.
- In summary, the Islamic approach to international trade differs from the traditional approach in several key ways, emphasizing fair and just trade, mutual benefit, ethical considerations, supporting economic development, and promoting social justice. These principles can help to ensure that trade is conducted in a manner that is consistent with Islamic values and promotes the common good of all people, rather than simply prioritizing profit or the interests of powerful nations or corporations.

Trade theory

Trade theory refers to a set of economic models and concepts that explain the patterns and benefits of international trade. Trade theories attempt to explain why countries engage in trade, how trade affects economic welfare, and what factors determine the terms of trade between countries. These theories help to explain the benefits of international trade and provide insights into the factors that drive the global economy. Trade theories have played a significant role in shaping policy decisions related to international trade over time. Here is a list of the major trade theories:

- **Mercantilism**
- **Absolute Advantage**
- **Comparative Advantage**
- Factor Endowment
- **Heckscher-Ohlin Theory**
- Product Life Cycle Theory
- New Trade Theory
- Porter's Diamond Model
- Gravity Model of Trade
- Institution-based View of International Business
- Dynamic Capabilities Theory
- Resource-based View of the Firm
- Technology Gap Theory
- Intra-industry Trade Theory
- Strategic Trade Policy Theory

Each of these trade theories offers a different perspective on the reasons for and benefits of international trade, and provides insights into the factors that drive the global economy.

What are the purpose of trade theory?
(Oct, 2016)

- To explain why countries engage in trade and how trade patterns emerge.
- To understand the benefits and costs of trade for individuals, firms, and countries.
- To explore how trade can be used to promote economic growth and development.
- To analyze the impact of trade policies, such as tariffs and quotas, on international trade and welfare.
- To provide insights into the effects of globalization and trade liberalization on different groups and sectors of society.

Explain Absolute Cost Advantage theory (Oct, 2016)

- The absolute advantage theory of international trade was developed by the economist Adam Smith in the 18th century.
- It suggests that a country should specialize in producing goods in which it has an absolute advantage over other countries, and then trade with those countries for goods in which they have an absolute disadvantage.
- According to the theory, a country has an absolute advantage in producing a good if it can produce that good more efficiently than any other country, using the same amount of resources. In other words, a country has an absolute advantage in producing a good if it can produce more output with the same amount of input, or produce the same amount of output with fewer resources, than any other country.
- For example, if country A can produce 100 units of wheat with 10 workers, while country B can produce 100 units of wheat with 20 workers, then country A has an absolute advantage in producing wheat. Similarly, if country B can produce 100 units of steel with 10 workers, while country A can produce 100 units of steel with 20 workers, then country B has an absolute advantage in producing steel.
- Under the absolute advantage theory, countries should specialize in producing the goods in which they have an absolute advantage, and trade with other countries for goods in which they have an absolute disadvantage. This can lead to gains from trade, as each country can specialize in producing the goods that it can produce most efficiently, and trade with other countries for goods that are more efficiently produced elsewhere.
- In summary, the absolute advantage theory suggests that countries should specialize in

Comparative Advantage theory

- The comparative advantage theory of international trade was first introduced by the economist David Ricardo in the early 19th century.
- The theory suggests that countries should specialize in producing goods in which they have a comparative advantage, and then trade with other countries for goods in which they have a comparative disadvantage.
- According to the theory, a country has a comparative advantage in producing a good if it can produce that good at a lower opportunity cost than another country. Opportunity cost refers to the cost of giving up the production of one good in order to produce another good.
- For example, if country A can produce 10 units of wheat or 2 units of cloth with 1 worker, while country B can produce 5 units of wheat or 1 unit of cloth with 1 worker, then country A has an absolute advantage in both wheat and cloth production. However, country A has a comparative advantage in producing wheat, as it only needs to give up producing 2 units of cloth in order to produce 1 additional unit of wheat, while country B needs to give up producing 1 unit of cloth in order to produce 1 additional unit of wheat.
- Under the comparative advantage theory, countries should specialize in producing the goods in which they have a comparative advantage, and trade with other countries for goods in which they have a comparative disadvantage. This can lead to gains from trade, as each country can specialize in producing the goods that it can produce most efficiently, and trade with other countries for goods that are more efficiently produced elsewhere.
- In summary, the comparative advantage theory suggests that countries should specialize in producing the goods in which they have a comparative advantage, and trade with other countries for goods in which they have a comparative disadvantage. This theory helps to explain the benefits of international trade and the gains that can be achieved through specialization and exchange.

Differences between Absolute and Comparative advantages of international trade? (Nov,2022)

- The main differences between absolute and comparative advantage are as follows:
  - **Definition:** Absolute advantage is the ability of a country or firm to produce more efficiently than another country or firm, while comparative advantage is the ability of a country or firm to produce at a lower opportunity cost.
  - **Focus:** Absolute advantage focuses on absolute efficiency, while comparative advantage focuses on relative efficiency.
  - **Comparison:** Absolute advantage compares the productivity of two countries in terms of a single good or service, while comparative advantage compares the opportunity costs of producing different goods or services.
  - **Specialization:** Absolute advantage suggests a country should specialize in producing the goods in which it has an absolute advantage and trade for the goods in which it does not, while comparative advantage suggests a country should specialize in producing the goods in which it has a comparative advantage and trade for goods in which it has a comparative disadvantage.
  - **Resource Allocation:** Absolute advantage is more concerned with maximizing the use of a country's resources, while comparative advantage is more concerned with minimizing the opportunity cost of production.
  - **Transferability:** Absolute advantage is less transferable between countries because it is based on the specific factors of production within each country, while comparative advantage can be transferred between countries because it is based on the relative opportunity costs of production.
- In summary, absolute advantage refers to the ability to produce a good more efficiently, while comparative advantage refers to the ability to produce a good at a lower opportunity cost. Both concepts are important in understanding the benefits of international trade and the gains from specialization and exchange.

Explain the advantages of comparative cost advantage theory over absolute cost advantage theory of international trade. (Oct'2019)

- The comparative advantage theory of international trade has several advantages over the absolute advantage theory. Here are some of the key advantages:
  - **Accounts for Differences in Opportunity Cost:** The comparative advantage theory considers the opportunity cost of producing a good in terms of what could have been produced instead. This makes it a more nuanced approach that accounts for differences in opportunity costs between countries.
  - **Focuses on Specialization:** The comparative advantage theory suggests that countries should specialize in producing the goods they can produce at a lower opportunity cost. This leads to greater specialization, which in turn leads to increased efficiency and higher output.
  - **Promotes Trade:** The comparative advantage theory suggests that countries should trade with each other, even if one country has an absolute advantage in producing all goods. This leads to greater trade and interdependence, which can promote peace and prosperity.
  - **Reflects Real-World Trade Patterns:** The comparative advantage theory reflects real-world trade patterns, where countries specialize in producing the goods they can produce at a lower opportunity cost and trade with other countries for goods they cannot produce efficiently.
  - **Explains Gains from Trade:** The comparative advantage theory provides a clear explanation of the gains from trade, which arise from the ability of countries to produce more efficiently when they specialize in producing the goods they can produce at a lower opportunity cost.
- In summary, the comparative advantage theory of international trade has several advantages over the absolute advantage theory, including its ability to account for differences in opportunity cost, promote specialization, reflect real-world trade patterns, explain the gains from trade, and promote international trade and interdependence.

State the differences between Modern Theory and Classical Theory of international trade. (May,2022)

- Modern trade theory is also referred to as the "New Trade Theory" and includes various theories such as:
  - Theory of economies of scale
  - Theory of imperfect competition
  - Product differentiation theory
  - Gravity model of trade
  - Theory of intra-industry trade
  - Theory of global value chains
- These theories are based on different assumptions and help explain various aspects of international trade.

- The classical theory of international trade refers to a group of economic theories that were developed in the late 18th and early 19th centuries. The two main classical theories of international trade are:
  - Theory of Absolute Advantage: This theory was developed by Adam Smith in his book "The Wealth of Nations" in 1776. According to this theory, a country should specialize in producing and exporting goods in which it has an absolute advantage, meaning that it can produce the goods more efficiently than other countries.
  - Theory of Comparative Advantage: This theory was developed by David Ricardo in his book "Principles of Political Economy and Taxation" in 1817. According to this theory, a country should specialize in producing and exporting goods in which it has a comparative advantage, meaning that it can produce the goods at a lower opportunity cost than other countries.

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- Both of these theories emphasize the benefits of free trade and specialization in international trade, but they differ in their criteria for determining which goods a country should specialize in producing and exporting.
- The modern theory of international trade, also known as the new trade theory, differs from the classical theory of international trade in several ways. Here are some of the key differences:
  - **Focus on Firm-Level Factors:** The classical theory of international trade focuses on country-level factors, such as natural resources and labor, while the modern theory focuses on firm-level factors, such as technology, research and development, and economies of scale.
  - **Emphasis on Product Differentiation:** The modern theory emphasizes product differentiation, arguing that firms can charge higher prices for unique and differentiated products, which can lead to increased profits and trade.
  - **Role of Government:** The modern theory acknowledges the role of government in promoting trade through policies such as subsidies, intellectual property protection, and investment in research and development.
  - **Increasing Returns to Scale:** The modern theory recognizes increasing returns to scale, where larger firms can produce goods at lower costs due to economies of scale, leading to increased competitiveness in international trade.
  - **Non-Tariff Barriers:** The modern theory acknowledges the role of non-tariff barriers, such as technical standards and regulations, in restricting trade, in addition to traditional tariff barriers.
  - **Integration of Global Value Chains**: The modern theory recognizes the increasing integration of global value chains, where different stages of production take place in different countries, leading to increased trade and interdependence.
- In summary, the modern theory of international trade differs from the classical theory in its focus on firm-level factors, emphasis on product differentiation, recognition of the role of government, acknowledgement of increasing returns to scale, consideration of non-tariff barriers, and recognition of the integration of global value chains.

Define Balance of Trade and Balance of Payment. (Oct,2021) (April,2019) (May 2023)
Trade Deficit (May 2023) (Oct 2023)

- Balance of Trade and Balance of Payments are two important concepts in international trade and finance.
- **Balance of Trade** refers to the difference between a country's exports and imports of goods over a specific period of time, usually a year. A positive balance of trade (a trade surplus) occurs when a country exports more goods than it imports, while a negative balance of trade (a **trade deficit**) occurs when a country imports more goods than it exports. The balance of trade is calculated by subtracting the total value of imports from the total value of exports.
- **Balance of Payments**, on the other hand, refers to the overall record of all economic transactions between a country and the rest of the world over a specific period of time, usually a year. It includes all financial flows, such as exports and imports of goods and services, investment income, and transfers of money. The balance of payments is divided into two main components: the current account, which measures the flow of goods and services in and out of a country, and the capital account, which measures the flow of investment and financial transfers. A positive balance of payments occurs when a country earns more from its exports and investments than it pays for imports and other foreign expenditures, while a negative balance of payments occurs when a country pays more than it earns from its exports and investments.

What are the components of Balance of Trade and Balance of Payment? (Nov,2022) (Oct,2021) (April,2019)

- The components of Balance of Trade are as follows:
  - Exports of goods: The total value of goods produced in a country and sold to other countries.
  - Imports of goods: The total value of goods purchased by a country from other countries.
  - Trade balance: The difference between the value of a country's exports and the value of its imports.

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The components of Balance of Payments are as follows:

1. Current account: Four main components:
    - Exports of goods and services
    - Imports of goods and services
    - Income received from abroad
    - Transfers
2. Capital account: Two main components:
    - Foreign direct investment
    - Portfolio investment
3. Official reserves account
    - Country's official reserves, such as foreign currency and gold, held by its central bank.

What are the constituent of Current A/C and Financial AC of Balance of Payment of a country?. (Oct'2019) (April, 2018)?

- The Current Account and Financial Account of the Balance of Payments (BOP) record various international economic transactions. Here are some examples of transactions that are included in each account:
- **Current Account:**
  - Exports and imports of goods (e.g., machinery, consumer goods, raw materials)
  - Exports and imports of services (e.g., transportation, tourism, consulting)
  - Income received from foreign investments (e.g., dividends, profits)
  - Income paid to foreign investors (e.g., dividends, profits)
  - Transfers of funds between countries (e.g., foreign aid, remittances)
- **Financial Account:**
  - Foreign direct investment (e.g., building a factory, buying a business)
  - Portfolio investment (e.g., buying stocks or bonds)
  - Other investment (e.g., bank deposits, loans)
  - Reserve assets (e.g., foreign currency reserves, gold reserves)
  - Other changes in financial assets and liabilities (e.g., debt forgiveness, currency swaps)
- It's worth noting that some transactions, such as foreign aid and remittances, can be classified in both the Current Account and Financial Account, depending on their nature.

Define Current Account and Capital Account? (Oct-2023)

- **Current Account:** The current account is a component of a country's balance of payments that monitors the flow of goods, services, income, and transfers between the country and other nations over a specific period. It essentially shows whether a country is running a surplus or deficit in its global transactions.
- **Capital Account:** The capital account is another segment of the balance of payments that records financial transactions, including investments, loans, and changes in a country's foreign exchange reserves. It provides insights into the financial aspects of a country's interactions with the rest of the world and reflects alterations in its ownership of assets abroad.

“Balance of Trade seldom balances but Balance of Payment always balances”- Explain the statement. (Oct, 2017) (Nov,2022) (Oct,2021) (April,2019)

- The statement "Balance of payments always balances" means that the total inflows of foreign exchange into a country must be equal to the total outflows of foreign exchange from that country over a given period of time.
- In other words, the sum of the current account balance, the capital account balance, and the official reserves balance in a country's balance of payments must always be zero.
- This is because every international transaction involves both a debit and a credit entry in the balance of payments.
- For example, when a country exports goods to another country, it receives payment in the form of foreign currency, which is a credit entry in the current account.
- At the same time, the importing country pays for the goods in its own currency, which is a debit entry in its current account.
- Similarly, when a foreign investor purchases shares in a domestic company, it is a credit entry in the capital account for the domestic country and a debit entry in the capital account for the foreign investor's home country.
- Therefore, the balance of payments must always balance, with total debits equaling total credits. If there is a surplus in the current account, it will be offset by a deficit in the capital account or vice versa. If the current account and capital account are in balance, any change in official reserves will also balance the overall balance of payments.

What is the difference between Balance of Trade and Balance of Payment? (Oct 2023) (Oct,2021) (April,2019)

- Differences between the Balance of Trade (BOT) and Balance of Payments (BOP) are given below:
  - **Coverage:** BOT measures only the trade of physical goods between countries, whereas BOP records all economic transactions, including goods, services, income, and financial transactions.
  - **Components:** BOT has only one component, which is the trade of physical goods. BOP, on the other hand, has three main components: current account, capital account, and official reserves account.
  - **Scope:** BOT is a narrower concept than BOP as it only records the transactions of physical goods, while BOP records all transactions, including services, income, and financial transactions.
  - **Focus:** BOT focuses on the net difference between exports and imports of physical goods, while BOP takes into account all economic transactions and focuses on the balance of payments.
  - **Importance:** BOT is important for countries that depend on the export of goods, while BOP is essential for countries that have significant international trade and investment.
  - **Impact:** A negative BOT indicates that a country is importing more than it is exporting, which can have a negative impact on the economy. In contrast, a negative BOP may indicate that a country is not attracting enough foreign investment or is experiencing a significant outflow of capital.
  - **Timeframe:** BOT is usually measured on a monthly or annual basis, while BOP is measured over a longer period, typically a year.

Differentiate among “Overall Balance”, “Trade Balance” and “Current Account Balance” of BOP of a country. (2016) / Short note on Overall Balance of BOP (April, 2018)

- The Overall Balance, Trade Balance, and Current Account Balance are all components of the Balance of Payments (BOP) of a country. Here's how they differ:
  - **Overall Balance:** The Overall Balance of the BOP is the sum of all the transactions between a country and the rest of the world over a certain period. It includes all financial transactions (e.g., capital flows, loans, investments, etc.) and all non-financial transactions (e.g., trade in goods and services, transfers, etc.).
  - **Trade Balance:** The Trade Balance is the difference between the value of a country's exports of goods and services and the value of its imports of goods and services over a certain period. It measures the net amount of goods and services a country is exporting or importing.
  - **Current Account Balance:** The Current Account Balance is a broader measure than the Trade Balance, as it includes not only trade in goods and services, but also net income from investments and transfers between a country and the rest of the world. It is the sum of the trade balance, net income from abroad, and net transfers.
- In summary, while the Overall Balance measures all transactions between a country and the rest of the world, the Trade Balance measures the net amount of goods and services a country is exporting or importing, and the Current Account Balance is a broader measure that includes net income from investments and transfers in addition to trade in goods and services.

Previous Year’s Questions (1st Chapter)

- What is International Trade? (May,2023)(Nov,2022) (May,2022) (April,2020) (Oct, 2018)
- Main areas of International Trade? (Oct-2023)
- International Trade is associated with national economy state your opinion. (May,2023)
- What are the advantages and disadvantages of International Trade? (Oct, 2018)
- What are the advantages of international trade? What roles banks play in international trade? (April, 2018)
- How International Trade can develop the economy? (April,2020)
- “International trade is a win-win game.” Explain the statement. (2016)
- Discuss the features of international trade in the light of Islamic Economics (April, 2017)
- Discuss the features of International Trade in the light of Islamic Sharia’h. (May,2023)
- Discuss Islamic approach to international trade. Is it different from traditional approach? In what way? (April, 2018)
- What are the purposes of trade theories? Explain Absolute Cost Advantage theory. (2016)
- What are the differences between Absolute and Comparative advantages of international trade? (Nov,2022)
- State the differences between Modern Theory and Classical Theory of international trade. (May,2022)
- Explain the advantages of comparative cost advantage theory over absolute cost advantage theory of international trade. (Oct’2019)

Previous Year's Questions – 1st Chapter (Contd…)

- Define Balance of Trade. Discuss its features with reference to the country perspective. (May,2023)
- Define Balance of Payment & mention its salient characteristics. (May,2023)
- Define Current Account & Capital Account (Oct 2023)
- Differrence between Balance of Trade & Balance of Payment (Oct 2023)
- What are the components of Balance of Trade and Balance of Payment? (Nov,2022)
- Short Notes on Trade Deficit (May,2023) (Oct 2023)
- "Balance of payment always balances" explain. (Nov,2022)
- Define Balance of Trade and Balance of Payment. (Oct,2021)
- What are the components of Balance of Trade and Balance of Payment? (Oct,2021)
- What is the difference between Balance of Trade and Balance of Payment? (Oct,2021)(Oct 2023)
- 'Balance of Payment is always balanced'- explain. (Oct,2021)
- Define balance of trade and balance of payment. (April,2019)
- Name the international economic transactions which are included in the current A/C and financial A/C of BOP of a country. (Oct'2019)
- What are the components of balance of trade and balance of payments? (April,2019)
- What is the difference between Balance of trade and balance of payments? (April,2019)
- 'Balance of payment is always balanced' – Explain. (April,2019)
- Define Current Account & Capital Account. (May,2023)
- What are the constituent of Current A/C and Financial NC of Balance of Payment of a country (April, 2018)?
- Short note on Overall Balance of BOP (April, 2018)
- "Balance of Trade seldom balances but Balance of Payment always balances"- Explain the statement. (Oct, 2017)
- Differentiate among "Overall Balance", "Trade Balance" and "Current Account Balance" of BOP of a country. (2016)

CHAPTER – 02: CONCEPT & SOURCES OF INTERNATIONAL FINANCE

SYLLABUS: : INTERNATIONAL FINANCIAL MARKETS & INSTRUMENTS, INTERNATIONAL MONETARY & FINANCIAL SYSTEM, FINANCIAL ENGINEERING, FINANCIAL DERIVATIVES, ISLAMIC PERSPECTIVE OF INTERNATIONAL FINANCIAL SYSTEM, OFF SHORE BANKING.

International Financial System and International Monetary System
(Oct'2016)

- The international financial system and the international monetary system are two closely related but distinct concepts.
- The international financial system refers to the global framework of financial institutions, markets, and instruments that facilitate the flow of funds and investments across national borders.
- It encompasses a broad range of activities, including banking, securities trading, currency exchange, and investment management.
- The international financial system is primarily concerned with the allocation of capital and the provision of financial services to individuals, businesses, and governments around the world.
- The international monetary system refers specifically to the system of exchange rates and international payments that governs the interactions between national currencies.
- It includes the rules and institutions that govern the exchange of currencies and the management of balance of payments imbalances between countries.
- The international monetary system is primarily concerned with maintaining the stability of exchange rates and promoting international trade and investment.
- In summary, the international financial system is a broader concept that encompasses all aspects of global finance, while the international monetary system is a subset of the international financial system that specifically deals with the exchange of currencies and balance of payments issues between countries.

Define the approach of Islamic Financial System. (Nov,2022)

- The Islamic financial system is based on principles of Islamic law (Shariah) and prohibits interest (riba), speculation (gharar), and investments in prohibited activities (haram). Instead, the system promotes risk-sharing and profit-sharing arrangements, where returns on investments are linked to the performance of underlying assets.
- The approach of the Islamic financial system is to promote social and economic justice, by ensuring that financial transactions are conducted in a fair and transparent manner, and that the benefits and risks of investment are shared between the parties involved. The system also aims to promote real economic activities, rather than speculation and financial engineering.
- In practice, Islamic financial institutions offer a range of products and services that conform to Shariah principles, including Islamic banking, Islamic insurance (takaful), Islamic investment funds (mutual funds), and Islamic bonds (sukuk). These products and services are designed to meet the financial needs of individuals and businesses, while adhering to the principles of Islamic law.
- Overall, the approach of the Islamic financial system is to promote ethical and socially responsible financial practices, while contributing to the economic development and prosperity of society as a whole.

What is International Financial Market?

(Oct 2023) (Nov,2022) (Oct,2021) (April,2019)

- The international financial market refers to a global marketplace where various financial instruments and assets are traded between participants from different countries. It includes a wide range of financial products and services, including stocks, bonds, currencies, commodities, and derivatives.
- The international financial market is composed of various sub-markets, such as foreign exchange markets, stock markets, and bond markets. Participants in these markets include individual investors, corporations, financial institutions, and governments. Transactions in the international financial market can take place through a variety of channels, including exchanges, over-the-counter markets, and electronic trading platforms.
- The international financial market plays a crucial role in facilitating global trade and investment by providing a mechanism for investors to allocate capital across borders and for businesses to access funding from a global pool of capital. However, it is also subject to various risks and uncertainties, such as currency fluctuations, market volatility, and regulatory changes, which can impact the financial stability of countries and the global economy as a whole.

Discuss components of international financial market. (Oct 2023) (Nov,2022) (Oct'2016)

- The components of the international financial market can be broadly categorized into three main segments:
  - **Foreign Exchange Market (Forex Market):**The forex market is the largest and most liquid financial market in the world, where currencies are bought and sold. It provides a mechanism for individuals, corporations, and governments to exchange one currency for another. The forex market operates 24 hours a day, 5 days a week, and trades approximately $6.6 trillion per day.
  - **Capital Market:** The capital market is a market for long-term financial instruments, such as stocks, bonds, and other securities. It provides a mechanism for investors to allocate capital across different countries and for businesses to access funding from a global pool of capital. The capital market includes primary markets where new securities are issued and secondary markets where existing securities are traded.
  - **Money Market:** The money market is a market for short-term financial instruments, such as treasury bills, commercial papers, and certificates of deposit. It provides a mechanism for investors to earn interest on their surplus funds and for borrowers to access short-term financing. The money market operates 24 hours a day, 5 days a week, and trades approximately $12 trillion per day.
- Other components of the international financial market include commodity markets, derivatives markets, and alternative investment markets such as hedge funds and private equity.
- The international financial market plays a critical role in facilitating global trade and investment by providing a mechanism for investors to allocate capital across borders and for businesses to access funding from a global pool of capital.
- However, it is also subject to various risks and uncertainties, such as currency fluctuations, market volatility, and regulatory changes, which can impact the financial stability of countries and the global economy as a whole.

What are the instruments of international financial market?

(Oct,2021) (April,2019)

- The international financial market includes a wide range of instruments that are used by participants to facilitate cross-border financial transactions. Some of the most common instruments of the international financial market include:
  - **Foreign exchange (FX) instruments:** These are instruments used for currency exchange and hedging against currency risk, including spot transactions, forwards, futures, options, and swaps.
  - **International bonds:** These are debt instruments issued by corporations, banks, and governments in foreign currencies. Examples include Eurobonds, global bonds, and sovereign bonds.
  - **International equities:** These are stocks issued by companies listed on foreign stock exchanges, which are traded globally. Examples include American Depository Receipts (ADRs) and Global Depository Receipts (GDRs).
  - **International mutual funds:** These are investment vehicles that pool money from investors to invest in international securities, including stocks and bonds.
  - **International exchange-traded funds (ETFs):** These are investment funds traded on stock exchanges that hold a basket of international securities, such as stocks or bonds.
  - **Derivatives:** These are financial instruments whose value is derived from an underlying asset or index, including options, futures, swaps, and forwards.
  - **International money market instruments:** These are short-term debt instruments used to raise capital in the international financial market, including treasury bills, commercial papers, and certificates of deposit.
  - **International project finance:** This is a long-term financing technique used to fund large-scale infrastructure and development projects. It typically involves a consortium of lenders who provide financing based on the projected cash flows of the project.
  - **International trade finance:** This includes a range of instruments used to finance international trade, including letters of credit, bank guarantees, and export credit insurance.
- Overall, the instruments of the international financial market serve as tools for investors and businesses to manage risk, raise capital, and invest in global opportunities.

Does Islamic economics support international financial market? (Oct 2023) Nov,2022) (Oct,2021) (April,2019)

- Islamic economics recognizes the importance of financial markets in facilitating economic growth and development.
- However, it emphasizes the need for financial transactions to be based on ethical and moral principles.
- In particular, Islamic economics prohibits any financial transactions that involve interest (riba) or uncertainty (gharar). Therefore, Islamic finance instruments have been developed that comply with the principles of Islamic law (Shariah).
- The instruments used in Islamic finance are different from those used in conventional finance. For example, instead of conventional interest-based loans, Islamic finance uses profit and loss-sharing arrangements such as Musharakah and Mudarabah.
- Islamic finance also uses Sukuk (Islamic bonds), which represent ownership in a tangible asset rather than a debt obligation, as well as other instruments such as Murabaha, Ijara, and Salam.
- Overall, Islamic economics recognizes the importance of financial markets in facilitating economic growth and development, but emphasizes the need for financial transactions to be based on ethical and moral principles.
- Therefore, the instruments used in Islamic finance differ from those used in conventional finance.

What are Financial Derivatives? Briefly describe different types of derivatives. (Oct 2023) (Nov,2022) . (Oct,2021) (April,2019)

- **Financial derivatives** are financial instruments that derive their value from an underlying asset, such as a stock, bond, commodity, or currency. The value of a derivative depends on the price movements of the underlying asset. The underlying asset could be anything that has a market value and is tradable.
- There are several types of financial derivatives, including:
  - **Futures:** Futures contracts are agreements to buy or sell an underlying asset at a future date and at a predetermined price. They are commonly used to hedge against price fluctuations in commodities such as oil, gold, and wheat.
  - **Options:** Options give the holder the right, but not the obligation, to buy or sell an underlying asset at a predetermined price on or before a specified date. They can be used to protect against price movements or to speculate on future price movements.
  - **Swaps:** Swaps are agreements between two parties to exchange cash flows. The most common type of swap is an interest rate swap, where one party agrees to pay a fixed interest rate in exchange for receiving a floating interest rate.
  - **Forwards:** Forwards are similar to futures contracts, but they are not traded on an exchange. They are customized agreements between two parties to buy or sell an underlying asset at a future date and at a predetermined price.
  - **Credit derivatives:** Credit derivatives are used to manage credit risk. They allow investors to transfer credit risk from one party to another. Credit default swaps (CDS) are the most common type of credit derivative.
- These are some of the most commonly used financial derivatives. Each type of derivative has its own unique characteristics and risks. Investors should carefully consider their investment objectives and risk tolerance before investing in derivatives.

What is the difference between forward and future? (April,2019)

- Key differences between forwards and futures:
  - **Standardization:** Futures contracts are standardized agreements traded on an exchange, whereas forward contracts are customized agreements negotiated between two parties. The terms of a futures contract, such as the underlying asset, quantity, delivery date, and price, are predetermined and standardized, making it easier for traders to buy and sell these contracts.
  - **Counterparty risk:** In a forward contract, both parties are exposed to counterparty risk, which is the risk that the other party will default on their obligation to buy or sell the underlying asset. In contrast, futures contracts are traded on an exchange, and the exchange acts as the counterparty for both parties, reducing the risk of default.
  - **Margin requirements:** Futures contracts require both parties to deposit a margin, which acts as collateral and ensures that both parties fulfill their obligations under the contract. In contrast, forward contracts do not have margin requirements.
  - **Liquidity:** Futures contracts are more liquid than forward contracts because they are standardized and traded on an exchange, making it easier for traders to enter and exit positions. In contrast, forward contracts are less liquid because they are customized and not traded on an exchange.
  - **Settlement:** Futures contracts are settled on a daily basis, meaning that gains and losses are settled each day until the contract expires. In contrast, forward contracts are settled at the end of the contract term, with the buyer and seller exchanging the underlying asset for cash or another asset.
- Overall, while both forwards and futures are derivative contracts that involve the purchase or sale of an underlying asset at a predetermined price on a future date, they have several key differences related to standardization, counterparty risk, margin requirements, liquidity, and settlement.

Differentiate between futures and options markets. (2016)

- **Obligation:** Futures contracts obligate both the buyer and the seller to fulfill the contract, while options give the holder the right but not the obligation to buy or sell the underlying asset.
- **Profit potential:** Futures traders aim to profit from price movements, while options offer potential for unlimited profits with limited risk.
- **Time horizon:** Futures contracts have a fixed expiration date, while options have a variable expiration date.
- **Trading mechanism:** Futures are traded on centralized exchanges, while options can be traded on both centralized exchanges and over-the-counter markets.
- **Cost:** Futures typically require less upfront capital, while options require payment of a premium to purchase the contract.

Off-shore banking (Nov,2022) (April, 2018) (Oct, 2017)

- Offshore banking refers to the practice of depositing and managing money in a bank located outside of the depositor's country of residence.
- Banking for the Non-Residents
- Offshore banks are typically located in countries with low tax rates and lenient financial regulations, such as the Cayman Islands, Bermuda, or Switzerland.

Describe the advantages and disadvantages of off-shore banking. (April, 2018)

- Advantages of offshore banking
  - **Tax benefits:** Offshore banking can provide significant tax benefits, as many offshore jurisdictions have low tax rates or do not tax non-residents at all. This can be particularly attractive for high net worth individuals or businesses with large amounts of capital.
  - **Financial privacy:** Offshore banking can provide increased financial privacy and confidentiality, as many offshore jurisdictions have strict privacy laws that protect the identities of account holders. This can be especially beneficial for individuals or businesses with sensitive financial information.
  - **Asset protection:** Offshore banking can provide enhanced asset protection, as many offshore jurisdictions have strong legal systems that protect assets from creditors, lawsuits, or other legal actions.
  - **Diversification:** Offshore banking can provide diversification benefits by allowing individuals or businesses to invest in a wider range of assets or currencies than may be available in their home country.

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- **Disadvantages of offshore banking**
  - **Regulatory risks:** Offshore banking is subject to regulatory risks, as many offshore jurisdictions have lenient financial regulations that may not provide the same level of protection as more established financial centers.
  - **Reputation risks:** Offshore banking can be associated with negative perceptions of tax evasion, money laundering, or other illicit activities, which can damage the reputation of individuals or businesses associated with offshore accounts.
  - **Higher costs:** Offshore banking can be more expensive than domestic banking, as offshore banks may charge higher fees or require larger minimum account balances.
  - **Lack of access:** Offshore banking may limit access to banking services and financial markets in the depositor's home country, which can create logistical challenges or additional costs.
- In summary, offshore banking can provide significant tax benefits, financial privacy, asset protection, and diversification benefits, but it is also subject to regulatory and reputation risks, higher costs, and limitations on access to banking services and financial markets. Individuals or businesses considering offshore banking should carefully weigh the potential advantages and disadvantages and seek professional advice before making any decisions.

How come –Off Shore Banking is different from other types of international banking? (Oct, 2017)

- Offshore banking is a specific type of international banking that involves opening a bank account or investment account in a country other than the depositor's country of residence or the country where their business is based. Offshore banking is distinct from other types of international banking, such as correspondent banking or trade finance.
- Correspondent banking involves a relationship between two banks located in different countries, where one bank acts as a correspondent bank for the other, providing services such as wire transfers, foreign currency exchange, and check clearing. Correspondent banking does not involve opening a bank account in a foreign country.
- Trade finance involves providing financing and other services to support international trade transactions, such as letters of credit, trade finance loans, and foreign currency hedging. Trade finance is focused on facilitating international trade, whereas offshore banking is focused on managing and growing assets in a foreign country.
- Offshore banking is often associated with financial privacy, tax benefits, and asset protection, which can make it attractive to high net worth individuals, multinational corporations, and other entities seeking to manage their wealth and assets in a favorable legal and regulatory environment. Offshore banking can also involve higher costs and regulatory risks compared to other types of international banking, and it may be subject to more scrutiny from regulators and law enforcement authorities.

Features of off-shore banking in Bangladesh

- Offshore banking refers to banking activities that are conducted outside the country of residence of the account holder. In Bangladesh, offshore banking is allowed, and some of the features of offshore banking in Bangladesh include:
- Here are some features of off-shore banking in Bangladesh:
  - **Tax benefits:** Offshore banking in Bangladesh offers tax benefits to account holders. The tax laws of Bangladesh provide incentives for offshore banking, including exemptions from taxes on foreign currency transactions.
  - **Confidentiality:** Offshore banking in Bangladesh provides a high degree of confidentiality and privacy for account holders. Banks are required to maintain strict confidentiality and are prohibited from disclosing information about their clients unless required by law.
  - **Currency diversification:** Offshore banking in Bangladesh allows for currency diversification, enabling account holders to hold deposits in different currencies and protect against currency fluctuations.
  - **Investment opportunities:** Offshore banking in Bangladesh provides access to a wide range of investment opportunities, including stocks, bonds, and mutual funds.
  - **Global access:** Offshore banking in Bangladesh provides global access to funds and facilitates international transactions. This allows account holders to conduct business and engage in transactions in different countries and currencies.
  - **Flexibility:** Offshore banking in Bangladesh offers flexibility in terms of account opening and management, with lower minimum deposit requirements compared to onshore banking. Offshore banks may also offer a range of banking services, such as online banking, credit facilities, and wealth management services.

What is Financial Engineering (Oct 2023) (Nov,2022) (May,2022) (Oct’2019) (May 2023)

- Financial engineering is the process of creating new financial products, techniques, and systems through the use of mathematical and quantitative methods. The goal of financial engineering is to design financial products that meet the specific needs of investors and financial institutions, and to create more efficient and effective ways of managing financial risk.
- Financial engineering involves a range of techniques, including mathematical modeling, computer programming, and statistical analysis. Financial engineers use these tools to create complex financial products and trading strategies, such as derivatives, structured products, and algorithmic trading systems.
- **Advantages of financial engineering include:**
  - Customization: Financial engineering allows financial institutions to create customized products and services that meet the specific needs of their clients.
  - Risk management: Financial engineering can help institutions manage financial risk by creating new ways to hedge against market volatility and other sources of risk.
  - Innovation: Financial engineering can foster innovation in financial markets, leading to new products and trading strategies that can benefit investors and institutions.
  - Efficiency: Financial engineering can create more efficient financial markets by streamlining trading and settlement processes, reducing transaction costs, and improving market liquidity.
- **However, financial engineering can also pose risks, including:**
  - Complexity: Financial products and strategies created through financial engineering can be highly complex, making it difficult for investors to understand the risks involved.
  - Systemic risk: The use of financial engineering can create systemic risks in financial markets if a large number of investors and institutions are exposed to the same types of risks.
  - Counterparty risk: Financial engineering can increase counterparty risk, which is the risk that one party to a transaction may default on its obligations.
  - Regulatory challenges: The use of financial engineering can create challenges for regulators who must oversee and monitor these products and strategies to ensure they comply with relevant laws and regulations.

Questions of Previous Years

- Define the approach of Islamic Financial System. (Nov,2022)(Oct 2023)
- Distinguish between International financial system and International monetary system. (2016)
- What is International Financial Market? Discuss components of international financial market. (Nov,2022) (May 2023)
- Does Islamic economics support international financial market? (Nov,2022) (Oct 2023)
- What do you mean by International Financial Market? (Nov 2023) (Oct,2021)
- What are the instruments of international financial market? (Oct,2021)
- Does Islamic Economics support international financial market? (Oct,2021)
- What do you mean by international financial market? (April,2019)
- What are the instruments of international financial market? (April,2019)
- Does Islamic economics support international financial market? (April,2019)
- What do you mean by International financial market? Name and define at least three international financial markets.(2016)
- What are Financial Derivatives? Briefly describe different types of derivatives. (Oct 2023) (Nov,2022)
- What are Financial Derivatives? Explain. (Oct,2021)
- What are Derivatives? What is the difference between forward and future? (April,2019)
- What is Off-Shore Banking? (Nov,2022)
- Define Off-shore banking. Describe the advantages and disadvantages of off-shore banking. (April, 2018)
- What is Off-Shore Banking? How come it is different from other types of international banking? (Oct, 2017)
- Financial Engineering (Oct 2023)(Nov,2022) (May,2022)
- What is financial Engineering? Differentiate between futures and options markets.(2016
- Short Note on Financial Engineering (Oct’2019) (May 2023)

CHAPTER – 03: INTERNATIONAL TRADE PAYMENT METHODS

SYLLABUS: ADVANCE PAYMENT, OPEN A/C, DOCUMENTARY COLLECTION & DOCUMENTARY CREDIT, CONSIGNMENT SALE, ISLAMIC VIEW POINT OF INTERNATIONAL TRADE PAYMENT METHODS, CROSS BORDER FUND TRANSFER TOOLS, CHEQUE, TC, DRAFTS, TT, SWIFT & OTHER FORMS OF ELECTRONIC FUND TRANSFER TOOLS.

Discuss the following trade payment methods, its advantages and disadvantages considering importers and exporters: i) Payment in Advance ii) Documentary Credit iii) Documentary Collection iv) Open Account

(May,2022) (April,2020) (Oct’2019) (Oct, 2018)

- **Cash in Advance/Payment in Advance:** In this method, the importer pays the exporter in advance for the goods to be delivered. This payment is made before the goods are shipped. The advantages of this method for the exporter are that they receive payment upfront, which reduces the risk of non-payment. For the importer, the advantage is that they can be assured that the goods will be shipped as the exporter already has the payment. The disadvantage for the exporter is that this payment method may not be acceptable to some buyers as it requires them to pay upfront. For the importer, the disadvantage is that they take the risk of paying upfront, and if the goods are not shipped, they may not be able to recover the payment.

- **Letter of Credit:** A letter of credit (LC) is a document issued by a bank, guaranteeing payment to the exporter on behalf of the importer. The importer's bank issues the LC, which specifies the terms and conditions under which payment will be made. The advantage for the exporter is that they are assured of payment as long as they meet the conditions specified in the LC. For the importer, the advantage is that they can be assured that the goods will be delivered before payment is made. The disadvantage for the exporter is that LCs can be complicated and costly to set up, and there is always a risk that the importer's bank may not honor the LC. For the importer, the disadvantage is that they may have to pay bank fees and other charges associated with the LC.

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- **Documentary Collection:** In this method, the exporter sends the shipping documents to the importer's bank, and the bank releases the documents to the importer only after payment is made. The advantage for the exporter is that they retain control of the shipping documents until payment is made. For the importer, the advantage is that they can inspect the goods before payment is made. The disadvantage for the exporter is that they bear the risk of non-payment, and there is always a risk that the importer's bank may not honor the payment. For the importer, the disadvantage is that they take the risk of paying before they have possession of the goods.

- **Open Account:** In this method, the exporter ships the goods and sends an invoice to the importer, who pays at a later date. The advantage for the importer is that they can inspect the goods before payment is made, and they can use the goods to generate revenue before paying for them. The advantage for the exporter is that they can offer more flexible payment terms, which may make their products more attractive to buyers. The disadvantage for the exporter is that they bear the risk of non-payment, and there is no guarantee that payment will be made. For the importer, the disadvantage is that they take the risk of paying later and may not have any legal recourse if the goods are not as expected.

Documents against Payment (DP) and Documents against Acceptance (DA) (Oct, 2018)

- Documents against Payment (DP) and Documents against Acceptance (DA) are two payment methods used in the Documentary Collection process.
- Under Documentary Collection, the exporter ships the goods to the importer and sends the shipping documents, such as the Bill of Lading, commercial invoice, and packing list, to their bank. The exporter's bank then sends the documents to the importer's bank. The importer's bank will release the documents to the importer only after the payment has been made (DP) or after accepting a draft or bill of exchange (DA).
- The key difference between DP and DA under Documentary Collection is the timing of payment. In DP, the importer must make payment before they can receive the shipping documents, while in DA, the importer accepts a draft or bill of exchange, which obligates them to pay at a future date.
- DP is a more secure payment method for the exporter, as they receive payment before the documents are released, ensuring that they retain control of the goods until payment is made. However, for the importer, this can be an expensive method as they must pay before they receive the documents, which can cause cash flow issues.
- DA, on the other hand, gives the importer more flexibility as they can delay payment until the specified time frame. However, this method poses more risk for the exporter as they must wait for payment and rely on the importer's acceptance of the draft or bill of exchange. If the importer fails to pay, the exporter may have to go through a lengthy legal process to recover the payment.
- In conclusion, both DP and DA are payment methods used in the Documentary Collection process, which helps facilitate payment in international trade. The choice of payment method depends on the level of trust between the parties and the cash flow requirements of both the importer and exporter.

SWIFT (April,2020) (Oct’2019)

- SWIFT (Society for Worldwide Interbank Financial Telecommunication) is a global financial messaging network used by banks and financial institutions to securely and efficiently exchange financial messages and transactions. It was founded in 1973 and is headquartered in Belgium. SWIFT enables banks to communicate with each other and exchange information related to international transactions, such as letters of credit, fund transfers, and trade finance. It provides a standardized messaging format and a secure communication platform, which helps to reduce errors and fraud in international financial transactions. Today, SWIFT serves over 11,000 financial institutions in more than 200 countries.

What are the mandatory fields in the SWIFT message for opening a L/C? (Oct 2023) (April,2020) (April,2019)

- The SWIFT message for opening a Letter of Credit (LC) typically includes several mandatory fields that must be completed in order for the message to be processed correctly. The specific mandatory fields may vary depending on the type of LC and the issuing bank, but typically include the following:
  - **Sender and receiver information:** The SWIFT message must include the BIC (Bank Identifier Code) of both the sender and receiver banks.
  - **Message type:** The message type for a Letter of Credit is usually MT700.
  - **Documentary credit number:** The unique number assigned to the Letter of Credit by the issuing bank.
  - **Documentary credit value:** The amount of the LC in the currency specified.
  - **Applicant information:** The name and address of the party applying for the LC, along with their account number and BIC.
  - **Beneficiary information:** The name and address of the party to whom the LC is issued, along with their account number and BIC.
  - **Issuing bank information:** The name and address of the issuing bank, along with their account number and BIC.
  - **Type of LC:** The type of LC, such as irrevocable, confirmed, or transferable.
  - **Expiry date:** The date by which the documents must be presented to the issuing bank.
  - **Documents required:** The specific documents required for the LC, such as commercial invoice, bill of lading, and packing list.
  - **Description of goods or services:** A brief description of the goods or services to be supplied.
  - **Shipping terms:** The shipping terms, such as FOB or CIF.
  - **Incoterm:** The Incoterm that defines the buyer's and seller's obligations and responsibilities in the transaction.
- It is important to note that the information required in a SWIFT message for opening an LC may vary depending on the specific requirements of the issuing bank and the type of transaction involved.

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- **This includes the following fields:**
  - Documentary Credit Number (field tag 20)
  - Issue Date (field tag 31C)
  - Applicant Bank (field tag 50)
  - Applicant (field tag 50)
  - Beneficiary Bank (field tag 59)
  - Beneficiary (field tag 59)
  - Currency Code (field tag 32B)
  - Amount (field tag 32B)
  - Expiry Date (field tag 31D)
  - Latest Shipment Date (field tag 44C)
  - Partial Shipments (field tag 43P)
  - Transhipment (field tag 43T)
  - Available With (field tag 41D)
  - Drafts at (field tag 42C)
  - Documents Required (field tag 46A)
  - Additional Conditions (field tag 47A)
  - Charges (field tag 71B)
  - Period for Presentation (field tag 48)
  - Confirmation Instructions (field tag 49)

- **It is important to note that the specific information required in a SWIFT message for opening an LC may vary depending on the requirements of the issuing bank and the type of transaction involved.**

Questions of previous years (Chapter – 03)

- **Discuss the following trade payment methods, its advantages and disadvantages considering importers and exporters: i) Payment in Advance ii) Documentary Credit iii) Documentary Collection iv) Open Account (May,2022) (April,2020) (Oct’2019) (Oct, 2018)**
- **Documents against Payment (DP) and Documents against Acceptance (DA) (Oct, 2018)**
- **What are the mandatory fields in the SWIFT message for opening a L/C? (Oct 2023)(April,2020) (April,2019)**
- **Short Note on SWIFT (April,2020) (Oct’2019)**

CHAPTER – 04: DOCUMENTARY CREDITS:

SYLLABUS: DEFINITION, CLASSIFICATION, OPENING, ADVISING & OPERATIONAL PROCEDURES, DIFFERENT TYPES OF DOCUMENT: FINANCIAL, COMMERCIAL, TRANSPORT, INSURANCE & OTHER DOCUMENTS, HANDLING OF L/C DOCUMENTS IN IMPORT & EXPORT.

Definition of Letter of Credit. (Oct 2023) (April,2019) (Oct, 2018) (April,2020) (Nov,2022)

- As per UCPDC 600, Credit (LC) means any arrangement, however named or described, that is irrevocable and thereby constitutes a definite undertaking of the issuing bank to honour a complying presentation.
- A letter of credit (LC) is a document issued by a bank, guaranteeing payment to the exporter on behalf of the importer. The importer's bank issues the LC, which specifies the terms and conditions under which payment will be made. The advantage for the exporter is that they are assured of payment as long as they meet the conditions specified in the LC. For the importer, the advantage is that they can be assured that the goods will be delivered before payment is made. The disadvantage for the exporter is that LCs can be complicated and costly to set up, and there is always a risk that the importer's bank may not honor the LC. For the importer, the disadvantage is that they may have to pay bank fees and other charges associated with the LC.

Describe the types of LC?

- There are several types of Letters of Credit (LC) used in international trade. Here is a list of the main types:
  - **Revocable Letter of Credit:** A type of LC that can be modified or canceled by the issuing bank without prior notice to the beneficiary.
  - **Irrevocable Letter of Credit:** A type of LC that cannot be modified or canceled without the agreement of all parties involved, including the beneficiary, the issuing bank, and the Confirming Bank (if any).
  - **Confirmed Letter of Credit**: An LC that has been guaranteed by a second bank, known as the confirming bank, in addition to the issuing bank. This provides additional assurance to the beneficiary that payment will be made.
  - **Standby Letter of Credit:** A type of LC that is used as a backup to ensure payment in case the applicant fails to fulfill their contractual obligations.
  - **Transferable Letter of Credit**: An LC that allows the beneficiary to transfer all or part of the proceeds to one or more third parties.

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- **Back-to-Back Letter of Credit:** An LC that is issued based on an existing LC, where the beneficiary uses the first LC as collateral to secure a second LC for a different transaction.
- **Red Clause Letter of Credit:** An LC that allows the beneficiary to receive a portion of the payment before completing the shipment, typically used to finance production.
- **Green Clause Letter of Credit:** An LC that allows the beneficiary to store the goods in a warehouse before shipment and receive financing against the stored goods.
- **Revolving Letter of Credit:** An LC that allows the beneficiary to draw down funds multiple times within a specified period, up to a certain amount.
- **Sight Letter of Credit**: An LC that requires payment to be made immediately upon presentation of the required documents.
- **Time/Usance Letter of Credit**: An LC that allows for payment to be made at a later date, typically 30, 60, or 90 days after acceptance or presentation of the required documents.

- Each type of LC has specific terms and conditions that must be met for payment to be made, and it is important for all parties involved to fully understand and comply with these requirements to avoid any issues or disputes.

Discuss the parties involved in L/C along with their roles and responsibilities.

(April,2020) . (April,2019) . (Oct, 2018)

- There are **typically five parties** involved in a Letter of Credit (LC) transaction:
  - **Applicant (Buyer):** The buyer or importer is the party that requests the issuance of an LC from their bank. The applicant is responsible for paying the bank fees and ensuring that the terms and conditions of the LC are agreed upon with the beneficiary.
  - **Issuing Bank:** The issuing bank is the bank that issues the LC on behalf of the buyer. The issuing bank is responsible for ensuring that the terms and conditions of the LC are in accordance with the buyer's instructions and the international rules and regulations.
  - **Beneficiary (Seller):** The seller or exporter is the party that receives the LC and is entitled to receive payment if they meet all the terms and conditions of the LC. The beneficiary is responsible for presenting the required documents to the bank to receive payment.
  - **Advising Bank:** The advising bank is the bank that advises the beneficiary of the LC's issuance and terms and conditions. The advising bank may also act as a confirming bank if the beneficiary requires additional assurance of payment.
  - **Confirming Bank (Optional):** The confirming bank is an additional bank that provides confirmation of payment to the beneficiary, in addition to the issuing bank's obligation. The confirming bank adds an extra layer of assurance for the beneficiary, especially when dealing with an unfamiliar or high-risk issuing bank.

Contd…

Each party in the LC transaction has specific roles and responsibilities:

- **The buyer** is responsible for providing the necessary funds and ensuring that the terms and conditions of the LC are in accordance with the trade agreement.
- **The issuing bank** is responsible for issuing the LC and ensuring that the terms and conditions of the LC are in accordance with the buyer's instructions and the international rules and regulations.
- **The seller** is responsible for shipping the goods or providing the services and presenting the required documents to the bank to receive payment.
- **The advising bank** is responsible for advising the beneficiary of the LC's issuance and terms and conditions, and may also act as a confirming bank if required.
- **The confirming bank** is responsible for providing additional assurance of payment to the beneficiary, in addition to the issuing bank's obligation.

In summary, the roles and responsibilities of the parties involved in an LC transaction are crucial in ensuring a smooth and secure payment process in international trade.

Why documentary credit is so preferred worldwide? Explain
(Nov,2022) (Oct 2023)

- Documentary Credit, also known as Letter of Credit (LC), is preferred worldwide in international trade transactions because it provides a level of security for both the buyer (importer) and seller (exporter), reduces the risk of non-payment and fraud, and is widely recognized and accepted by banks and businesses worldwide.
- One of the main reasons for the popularity of documentary credit is that it provides a guarantee of payment to the seller. The buyer's bank acts as an intermediary, ensuring that payment is made only when the seller has met all the terms and conditions of the LC. This reduces the risk of non-payment for the seller, who can rely on the LC as a guarantee of payment. The buyer also benefits from the LC, as they can inspect the documents before making payment, ensuring that the goods or services meet the agreed-upon terms.
- Furthermore, LCs are governed by international rules and regulations, such as the Uniform Customs and Practice for Documentary Credits (UCP 600), which ensure that all parties understand their rights and obligations. This standardization reduces the potential for misunderstandings and disputes in international trade.
- Additionally, LCs provide a level of protection against fraud in international trade. The requirement for specific documents, such as bills of lading, certificates of origin, and inspection certificates, reduces the risk of fraudulent transactions. The banks involved in the LC process also verify the authenticity of the documents, further reducing the risk of fraud.
- Overall, the benefits of documentary credit, including the security it provides to both the buyer and seller, reduced risk of non-payment and fraud, and its international recognition and standardization, make it a preferred payment method in international trade.

Preparatory steps for opening a letter of credit. (Oct 2023) (Nov,2022) (April,2019)

Opening a letter of credit (LC) involves several preparatory steps to ensure that the transaction is carried out smoothly and efficiently. Here are some of the preparatory steps that should be taken before opening an LC:

- Negotiate the terms and conditions of the LC: The buyer (importer) and the seller (exporter) should negotiate the terms and conditions of the LC before it is opened. This includes the type and quantity of goods to be traded, the price, the delivery date, and other relevant terms.
- Determine the type of LC: The parties should determine the type of LC that best suits their needs. This includes determining whether a confirmed or unconfirmed LC is needed, whether the LC should be irrevocable or revocable, and whether the LC should be a sight or a usance LC.
- Select the issuing bank: The buyer should select an issuing bank that is reputable and has experience in handling LCs. The issuing bank should also have correspondent relationships with banks in the seller's country to facilitate the transaction.
- Identify the beneficiary: The beneficiary (exporter) should be identified and their contact information should be obtained. This includes their name, address, and bank account details.
- Obtain the necessary documents: The buyer should obtain the necessary documents, such as the pro forma invoice, purchase order, and shipping documents, to support the transaction and ensure that the LC is properly drafted.
- Obtain approval from relevant authorities: Depending on the countries involved in the transaction, the buyer may need to obtain approval from relevant authorities, such as the central bank or the ministry of commerce, before opening the LC.
- Once these preparatory steps are completed, the buyer can prepare the necessary documentation and instructions for the issuing bank to open the LC. It is important to ensure that all information provided is accurate and complete to avoid delays and errors in the transaction.

How to handle discrepant documents? (Oct 2023)

- After receiving the documents from negotiating bank the issuing bank examine the documents whether it is compliant presentation or not. As per UCP 600, sub-article 14(b) documents must be examined within a maximum period of 5(five) banking days following the day of presentation.
- As per articles 2 of UCPDC600, complying presentation means a presentation that:
  - It is in accordance with the terms and conditions of the credit.
  - It is in conform with the applicable provision of UCPDC600
  - It is within the frame work of International Standard Banking Practices (ISBP).
- As per UCP 600, sub-article 15(a), if the documents compliant, is obligated by the issuing bank to take up the documents and effect settlement as per LC.
- If not compliant, It is not obligated by the issuing bank to take up the documents and effect settlement.
- If the issuing bank determines that the documents do not comply, it has two options:
  - First: It may refuse the documents and provide notice of refusal in accordance with UCP 600, sub-article 16(c) in a single notice.
  - Second: UCP 600, sub-article 16(b) gives the issuing bank the option, in its sole judgments, to approach the applicant for a waiver of the discrepancies. The issuing bank is not bound by an applicant’s decision to waive the discrepancies.
- If the issuing bank waives the discrepancies, then take up the documents and if the issuing bank rejects the documents, then refuse documents and give notice of refusal in accordance with UCP 600, sub-article 16(c) & (d)

Define Back to Back Letter of Credit. (Oct 2023)(Nov,2022)

- A Back-to-Back Letter of Credit (BBLC) is a type of letter of credit used in international trade to facilitate transactions where an intermediary is involved. In a BBLC transaction, a seller receives a letter of credit from a buyer, which is then used as collateral to obtain another letter of credit from a bank to pay a supplier for goods or services.
- In other words, a BBLC is a secondary letter of credit that is issued based on the primary letter of credit. The seller uses the primary letter of credit as collateral to obtain the BBLC from a bank, which is then used to pay a supplier. The BBLC allows the seller to receive payment from the buyer without having to use their own funds to pay the supplier.
- A BBLC transaction typically involves three parties: the buyer, the seller, and the intermediary. The intermediary can be a trader, a broker, or an agent who facilitates the transaction between the buyer and the seller.
- Overall, a BBLC is a useful tool for companies that do not have sufficient funds to pay suppliers upfront or do not have the creditworthiness to obtain a letter of credit directly from a bank. It also helps to reduce the financial risk for all parties involved in the transaction by providing a secure method of payment.

What are the preparatory steps for opening a Back to Back L/C?
(April,2020)

The preparatory steps for opening a Back-to-Back Letter of Credit (BBLC) are similar to those for a regular letter of credit. Here are the steps involved in opening a BBLC:

- Identify the parties involved: The parties involved in a BBLC transaction are the buyer, the intermediary, and the supplier. The buyer provides the primary letter of credit to the intermediary, who then uses it as collateral to obtain the BBLC from a bank. The BBLC is then used to pay the supplier for the goods or services.
- Negotiate the terms and conditions: The buyer and the intermediary should negotiate the terms and conditions of the BBLC, including the type and quantity of goods to be traded, the price, the delivery date, and other relevant terms.
- Determine the type of BBLC: The parties should determine the type of BBLC that best suits their needs. This includes determining whether a confirmed or unconfirmed BBLC is needed, whether the BBLC should be irrevocable or revocable, and whether the BBLC should be a sight or a usance BBLC.
- Select the issuing bank: The intermediary should select an issuing bank that is reputable and has experience in handling BBLCs. The issuing bank should also have correspondent relationships with banks in the supplier's country to facilitate the transaction.
- Identify the supplier: The intermediary should identify the supplier and their contact information, including their name, address, and bank account details.
- Obtain the necessary documents: The intermediary should obtain the necessary documents, such as the pro forma invoice, purchase order, and shipping documents, to support the BBLC transaction and ensure that it is properly drafted.
- Obtain approval from relevant authorities: Depending on the countries involved in the transaction, the intermediary may need to obtain approval from relevant authorities, such as the central bank or the ministry of commerce, before opening the BBLC.

- Once these preparatory steps are completed, the intermediary can prepare the necessary documentation and instructions for the issuing bank to open the BBLC. It is important to ensure that all information provided is accurate and complete to avoid delays and errors in the transaction.

UPAS LC? Rules and procedures of opening UPAS L/C & settlement (Oct’21) (May 2023)

- UPAS stands for "Usance Payable at Sight," which is a type of letter of credit (L/C) used in international trade finance. In a UPAS L/C, the issuing bank agrees to pay the beneficiary (exporter) at sight, while the applicant (importer) agrees to pay the issuing bank at a later date, typically after a set period of time known as the "usance period."
- The rules and procedures for opening a UPAS L/C and settling it are similar to those for other types of L/Cs, with some additional considerations. Here are the general steps involved in opening and settling a UPAS L/C:
  - Issuance of L/C: The applicant (importer) applies to the issuing bank for a UPAS L/C, specifying the usance period and other terms and conditions. The issuing bank issues the L/C and sends it to the advising bank (if applicable) for notification to the beneficiary (exporter).
  - Shipment and presentation of documents: The exporter ships the goods and prepares the necessary documents as per the terms and conditions of the L/C. The exporter then presents the documents to the negotiating bank (which may also be the advising bank) for payment.
  - Examination of documents: The negotiating bank examines the documents to ensure they comply with the terms and conditions of the L/C. If the documents are in order, the negotiating bank pays the beneficiary and sends the documents to the issuing bank.
  - Acceptance and payment: The issuing bank accepts the documents and pays the negotiating bank on the agreed-upon date after the usance period has ended. The issuing bank then releases the documents to the applicant (importer) in exchange for payment.
- The settlement of a UPAS L/C is similar to that of other types of L/Cs, with the difference being that the payment terms include a usance period. The importer must make payment to the issuing bank at the end of the usance period, as specified in the L/C.
- It is important to note that the rules and procedures for UPAS L/Cs may vary depending on the specific requirements of the parties involved in the transaction and the regulations governing international trade finance in the relevant jurisdictions.

What is ‘Add Confirmation’? What are the roles and responsibilities of a Confirming Bank? (Oct, 2018)

- In international trade finance, "adding confirmation" refers to a process whereby a confirming bank adds its own guarantee to a letter of credit (LC) that has been issued by another bank, typically the issuing bank. By adding its confirmation, the confirming bank agrees to pay the beneficiary (exporter) under the terms of the LC, in addition to the obligation of the issuing bank.
- The roles and responsibilities of the confirming bank include:
  - Providing additional payment security: By adding its confirmation, the confirming bank provides an additional layer of payment security to the beneficiary, as the confirming bank becomes directly liable for payment under the terms of the LC.
  - Conducting a risk assessment: Before agreeing to add its confirmation to an LC, the confirming bank will typically conduct a thorough risk assessment of the transaction and the parties involved in the transaction.
  - Negotiating any discrepancies: If documents presented under the LC contain discrepancies, the confirming bank may be responsible for negotiating the discrepancies with the beneficiary and/or issuing bank.
  - Charging fees: The confirming bank may charge fees for its services, including fees for adding its confirmation, as well as processing fees and other charges.
  - Ensuring compliance with regulations: The confirming bank must ensure that all aspects of the transaction comply with applicable laws and regulations, including anti-money laundering and counter-terrorism financing laws.
- Overall, the confirming bank plays an important role in providing payment security to the beneficiary and helping to facilitate international trade transactions. By adding its confirmation to an LC, the confirming bank provides an additional layer of assurance to the beneficiary that it will be paid under the terms of the LC.

Different Types of Documents used in LC

- **Financial Documents**
  - Bill of Exchange
- **Commercial Documents**
  - Proforma Invoice
  - International Sales Contract
  - Commercial Invoice
  - Packing List
  - Inspection Certificate
  - Shipment Advice
  - Other Commercial Documents: Certificate of Analysis, Pre-Export Verification of Conformity (PVoC) Certificate, Fiata Documents: FCR, FCT, FWR,SDT
- **Transport Documents**
  - Bill of Lading
  - Air Transport documents
  - Road Transport, Railway Transport or Inland waterway Transport documents
- **Insurance Documents**
  - Insurance Policy
  - Insurance Certificate
  - Open Cover
- **Other Documents**
  - Certificate of Origin
  - Health Certificate
  - Phyto-sanitary certificate

Describe following document along with its issuer & data contents as per ICC Rules (Definition, Who issued it and what is the data content) i) Bill of Lading ii) Certificate of Origin iii) Commercial Invoice iv) Bill of Exchange

- **Bill of Lading (B/L)**
- A Bill of Lading (B/L) is a legal document that serves as evidence of a contract of carriage between the shipper and the carrier, as well as a receipt for the goods shipped. It provides details about the goods being transported, the parties involved in the shipment, and the terms and conditions of the shipment.
- A Bill of Lading is typically issued by the carrier or its agent upon receipt of the goods, As per UCP 600, a Bill of Lading must contain the following data content
- Description of the goods
- Quantity of the goods
- Weight or volume of the goods
- Port of loading
- Port of discharge
- Freight and other charges
- Number of original Bills of Lading issued
- Signature of the carrier or its agent

Contd… Certificate of Origin

- A Certificate of Origin (CO) is a document that certifies the country of origin of a product. It is required by customs authorities to determine the eligibility of a product for import, and to assess any tariffs or duties that may apply. The CO provides proof that the product meets the rules of origin requirements under a particular trade agreement or country's customs regulations.
- A Certificate of Origin is typically issued by the exporter or its agent, and may need to be validated by a chamber of commerce or other authorized organization. The format and content of the CO can vary depending on the requirements of the importing country or trade agreement.

- Data Content of CO
  - Name of the exporter
  - Address of the exporter
  - Name of the importer
  - Address of the importer
  - Description of the goods
  - Harmonized System (HS) code of the goods
  - Country of origin of the goods
  - Quantity and unit of measure of the goods
  - Value of the goods
  - Signature of the exporter or its agent
  - Date of issuance

Contd… Commercial Invoice

- A Commercial Invoice is a document used in international trade that provides a description of the goods being shipped and details the costs associated with the transaction. It is used by customs officials to assess the value of the goods for the purpose of calculating tariffs, duties, and taxes. The Commercial Invoice is also used by the importer to verify the contents of the shipment and make payment to the exporter.
- A Commercial Invoice is typically issued by the exporter or its agent, and it must be in accordance with the terms of the sales contract or purchase order. The format and content of the Commercial Invoice can vary depending on the requirements of the importing country or trade agreement.

Data Content of Invoice

- Name and address of the exporter
- Name and address of the importer
- Description of the goods, including quantity, unit price, and total value
- Country of origin of the goods
- Currency of the transaction
- Incoterms (international commercial terms) used in the transaction
- Date of issuance
- Signature of the exporter or its agent

Contd... Bill of Exchange

- A Bill of Exchange (BOE), also known as a draft, is a written order from one party (the drawer) to another party (the drawee) to pay a specified amount of money on a specified date. It is a common financial instrument used in international trade transactions to facilitate payment between parties.
- A Bill of Exchange is typically issued by the seller or its bank, and it must be accepted by the buyer or its bank before payment is made. The BOE can be transferred to a third party for payment, and it can be used as collateral for loans or other financial arrangements.

Data Content of BOE

- Name and address of the drawer
- Name and address of the drawee
- Amount of the payment in words and figures
- Date of payment
- Place of payment
- Signature of the drawer
- Reference to the underlying transaction, such as the invoice or contract

Discuss following Transport Documents. State who can issue and what are the information the documents must contain as per ICC Rules i) Bill of Lading ii) Airway Bill iii) Truck Receipt iv) Multimodal Transport Document (May 2022)

Bill of Lading (B/L)

- A B/L is a legal document issued by the carrier of goods that acknowledges the receipt of cargo and specifies the terms of carriage.
- It serves as a contract of carriage between the shipper and the carrier, as well as a receipt of the goods.
- The carrier, such as a shipping company, issues the B/L.
- Issuer : 1. Carrier 2. Captain 3. Agent of Carrier 4. Agent of Captain
- Information : Shipping Date, Vessel, Port of lading, Description of the goods , Signed , Name of the Carrier , Shipped on Board Notation etc

Air Waybill (AWB)

- An AWB is a document that serves as a receipt of goods and contract of carriage between the shipper and the air carrier. It contains information such as the consignor and consignee, the origin and destination of the cargo, and the terms of the carriage. The air carrier issues the AWB.

Contd…

Road Transport Document (Truck Receipt)

- A road transport document is used for the carriage of goods by road. It serves as a receipt of the goods and evidence of the contract of carriage between the shipper and the carrier. The carrier, such as a trucking company, issues the road transport document.

Multimodal Transport Document (MTD)

- An MTD is a document that covers the transportation of goods by two or more modes of transport, such as by sea, rail, and road. It serves as a receipt of the goods and evidence of the contract of carriage between the shipper and the carrier. The carrier or freight forwarder issues the MTD.

Questions of previous years (Chapter 04)

- Definition of Letter of Credit. (Oct 2023)(April,2019) (Oct, 2018) (April,2020) (Nov,2022)
- Why documentary credit is so preferred worldwide? Explain. (Nov,2022) (Oct 2023)
- How many parties are involved with Letter of Credit? Discuss the parties involved in L/C along with their roles and responsibilities. (April,2020) . (April,2019) . (Oct, 2018)
- Preparatory steps for opening a letter of credit. (Nov,2022) (April,2019) (Oct 2023)
- Define Back to Back Letter of Credit. (Oct 2023)(Nov,2022)
- What are the preparatory steps for opening a Back to Back L/C? (Oct 2023) (April,2020)
- How to handle discrepant documents? (Oct 2023)
- What do you mean by UPAS L/C? Briefly narrate the rules and procedures of opening UPAS L/C and settlement thereof. (Oct, 2021) (May 2023)
- What is ‘Add Confirmation’? What are the roles and responsibilities of a Confirming Bank? (Oct, 2018)

THANK YOU …

DIB – 202: International Trade and Finance (Chapter – 05)

Mahmudur Rahman, CDCS
SEVP & Head of Dhaka Central Zone

Chapter – 05: Legal Framework of International Trade Payment

Syllabus:

Legal Framework of International Trade Payment: FER Act 1947, UCP-600, Inco Terms - 2010, Guidelines for Foreign Exchange Transactions, Import & Export Policy Order etc.

What are the Local and Foreign regulations of foreign exchange business? (Oct-2023)

Local Regulations

- Foreign Exchange Regulation Act (FERA), 1947
- Foreign Exchange Regulation Rules, 1947
- Bangladesh Bank Order, 1972
- Guidelines for Foreign Exchange Transactions (GFET)
- Export Policy of Bangladesh
- Import Policy Order
- Money Laundering Prevention Act, 2012
- Anti-Corruption Laws
- Income Tax Ordinance, 1984
- Double Taxation Avoidance Agreements (DTAAs)
- Foreign Exchange Circulars (FE Circulars)

Foreign Regulations

- Uniform Customs and Practice for Documentary Credits (UCP 600)
- Incoterms (International Commercial Terms)
- International Standard Banking Practice for the Examination of Documents under Documentary Credits (ISBP)
- Uniform Rules for Bank-to-Bank Reimbursements under Documentary Credits (URR)
- Uniform Rules for Collections (URC)
- Uniform Customs and Practice for Forfaiting (UCPF)
- International Standard for the Examination of Documents under Documentary Credits (ICC Publication 725)
- ICC Model International Sale Contract

of times questions appeared in the exam during Oct 2019 – Oct 2023):

- Complying Presentation (6 times)
- Nominated Bank (5 times)
- Clean Transport Document (5 times)
- Banking Day (5 times)
- Commercial Invoice (3 times)
- Negotiation (3 times)
- Beneficiary (2 times)
- Transferring Bank (2 times)
- Confirmation (2 times)
- Honor (2 time)
- Bill of Lading (2 time)
- Airway Bill (1 time)
- Truck Receipt (1 time)
- Multimodal Transport Document (1 time)
- Credit VS. Contract (1 time)
- Transferable Letter of Credit (1 time)
- Activities of money changer (1 time)
- Assignment of Proceed (2 time)
- Presenter (1 time)
- Claiming Bank (1 time)
- Blank Back Bill of Ladding (1 time)
- Issuing Bank (1 Time)
- Force Majeure (1 Time)
- Advising Bank (1 Time)

Who are “Persons Resident in Bangladesh” as per FERA 1947

As per Foreign Exchange Regulation Act 1947, “Person Resident in Bangladesh” means –

- an individual residing in Bangladesh for six months or more in the last twelve months;
- an individual temporarily residing in Bangladesh holding a residential or working visa valid for not less than six months;
- a person whose place of business is in Bangladesh; or
- a person whose principal place of business may be located outside Bangladesh but branch or liaison office or representative office of such business is in Bangladesh;
- diplomatic, consular and other representative offices of the Government of the People’s Republic of Bangladesh abroad as well as Bangladeshi citizens employed at these offices;
- persons holdings any office in service of the People’s Republic of Bangladesh wherver they may be for the time being either on duty or on leave:

provided that “person resident in Bangladesh” shall not include foreign diplomatic representations or accredited officials of such representations located within Bangladesh and offices of organizations established by international treaty located within Bangladesh;

Definitions as per UCP 600

Credit	Credit means an arrangement, however named or described, that is irrevocable and thereby constitutes a definite undertaking of the issuing bank to honour a complying presentation
Complying Presentation	Complying presentation means a presentation that is in accordance with the terms and conditions of the credit, the applicable provisions of these rules and international standard banking practice
Nominated Bank	Nominated bank means the bank with which the credit is available or any bank in the case of a credit available with any bank.
Banking Day	Banking day means a day on which a bank is regularly open at the place at which an act subject to these rules is to be performed.

Definitions as per UCP 600

Term	Definition
Negotiation	• Negotiation means the purchase by the nominated bank of drafts (drawn on a bank other than the nominated bank) and/or documents under a complying presentation, by advancing or agreeing to advance funds to the beneficiary on or before the banking day on which reimbursement is due to the nominated bank.
Beneficiary	• Beneficiary means the party in whose favour a credit is issued.
Confirmation	• Confirmation means a definite undertaking of the confirming bank, in addition to that of the issuing bank, to honour or negotiate a complying presentation. Confirming bank means the bank that adds its confirmation to a credit upon the issuing bank's authorization or request.
Presenter	• Presenter means a beneficiary, bank or other party that makes a presentation

Definitions as per UCP 600

Claiming Bank

- A bank that makes a claim under a letter of credit. The claiming bank must be the beneficiary of the letter of credit or a party authorized by the beneficiary to make a claim.

Advising Bank

- Advising bank means the bank that advises the credit at the request of the issuing bank.

Issuing Bank

- Issuing bank means the bank that issues a credit at the request of an applicant or on its own behalf.

Assignment of Proceeds

- The fact that a credit is not stated to be transferable shall not affect the right of the beneficiary to assign any proceeds to which it may be or may become entitled under the credit, in accordance with the provisions of applicable law. This article relates only to the assignment of proceeds and not to the assignment of the right to perform under the credit. (Article-39)

Definitions as per UCP 600 (Contd…)

Credit VS. Contract (Article – 04)

- a. A credit by its nature is a separate transaction from the sale or other contract on which it may be based. Banks are in no way concerned with or bound by such contract, even if any reference whatsoever to it is included in the credit. Consequently, the undertaking of a bank to honour, to negotiate or to fulfil any other obligation under the credit is not subject to claims or defences by the applicant resulting from its relationships with the issuing bank or the beneficiary.
- A beneficiary can in no case avail itself of the contractual relationships existing between banks or between the applicant and the issuing bank.
- b. An issuing bank should discourage any attempt by the applicant to include, as an integral part of the credit, copies of the underlying contract, proforma invoice and the like

Definitions as per UCP 600 (Contd…)

Honor

- i) to pay at sight if the credit is available by sight payment.
- ii) to incur a deferred payment undertaking and pay at maturity if the credit is available by deferred payment.
- iii) to accept a bill of exchange ("draft") drawn by the beneficiary and pay at maturity if the credit is available by acceptance.

Transferring Bank

- A "Transferring Bank" is the bank that, at the request of the issuing bank, forwards a transferable letter of credit (LC) to another bank (the second beneficiary's bank). The transferring bank's role is to facilitate the transfer of a transferable LC from the original beneficiary (first beneficiary) to another party (second beneficiary).

Transferable Letter of Credit

- A "Transferable Letter of Credit" is a type of LC that allows the original beneficiary (first beneficiary) to request the issuing bank to make the credit partially or entirely available to one or more other beneficiaries (second beneficiaries). This mechanism is often used in situations where an intermediary or middleman is involved in a trade transaction.

Definitions as per UCP 600 (Contd…)

Commercial Invoice

- A "Commercial Invoice" is a document issued by the beneficiary (seller) to the applicant (buyer) under a letter of credit (LC). It provides a detailed account of the goods or services supplied, including their description, quantity, price, and terms of sale. The commercial invoice is a critical document for both the customs and payment processes in international trade.

Transferring Bank

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Definitions as per UCP 600 (Contd…)

Bill of Lading

- A document issued by a carrier to the shipper of goods acknowledging receipt of the goods and undertaking to transport the goods to the consignee. The bill of lading is a receipt for the goods and is also a contract of carriage.

Blank Back Bill of Lading

- A bill of lading that does not have any terms and conditions printed on the back. The blank back bill of lading is typically used when the parties to the transaction want to agree on the terms and conditions of the carriage themselves.

Airway Bill

- A document issued by an air carrier to the shipper of goods acknowledging receipt of the goods and undertaking to transport the goods to the consignee. The airway bill is a receipt for the goods and is also a contract of carriage.

Definitions as per UCP 600 (Contd…)

Truck Receipt

- A document issued by a trucking company to the shipper of goods acknowledging receipt of the goods and undertaking to transport the goods to the consignee. The truck receipt is a receipt for the goods, but it is not a contract of carriage.

Multimodal Transport Document

- A document that evidences the carriage of goods by more than one mode of transport. The multimodal transport document is typically used for shipments that involve multiple modes of transport, such as ocean freight and trucking.

Clean Transport Document

- A transport document that does not contain any notations that indicate that the goods have been damaged or that there are any other problems with the goods. A clean transport document is required for most letters of credit.

Issuance of foreign currency for travel abroad (As per GFET-2018)

Entitlements

- General Entitlement per person Per Calendar Year: Max $12000.00 or equivalent
- Per Instance (Trip): Max $ 5000.00 in the form of USD notes and the reminder in other free convertible currencies.
- Minors (under 12 years old) can get half the amount that adults are allowed.
- If someone needs more than the usual limit, they can apply to the Bangladesh Bank with proof of their expenses.

Endorsement:

Other Instructions

Release of foreign currency for travel on health ground

- Banks can release up to $10,000 on the recommendation of the Health Directorate's Medical Board or appropriate medical specialists and the cost estimate of the foreign medical institution.

Advance payment for import (As per GFET)

- Banks in Bangladesh (ADs) can make advance payments for imports of goods and services without prior approval from Bangladesh Bank, as long as the purchase contract requires it and the supplier provides a repayment guarantee from a foreign bank.
- For payments up to USD 5000, the repayment guarantee is not required, but the AD must make sure that the importer does not have any pending bills of entry, and must arrange for repatriation of the payment if the goods are not imported within the stipulated time.
- The AD must also follow the instructions of the IPO, and submit an undertaking form and copies of the repayment guarantee and credit report to the FEPD at Bangladesh Bank.
- If the supplier is unable or unwilling to provide a repayment guarantee, the AD can submit a request to the FEPD for a specific decision.
- ADs must inform the Bangladesh Bank if they do not receive the goods or services they have paid for within due time.

Import on deferred/usance basis, its allowed items/commodities and tenor of usance.

Subject to compliance with other conditions laid down in chapter-7 and in the current IPO, import is allowed on deferred payment/usance basis in the following cases:

- Import of capital machinery and spares for own use by industrial importers on up to 360(three hundred sixty) days usance basis;
- Industrial raw material imports for own use of industrial importers (including back to back imports) on up to 180(one hundred eighty) days usance basis;
- Import of coastal vessels including oil tankers and ocean going vessels including those procured for scrapping on up to 360(three hundred sixty) days usance basis;
- Import of agricultural implements and chemical fertilizers on up to 180(one hundred eighty) days usance basis;
- Import of life saving drugs (certified/declared as such by Drugs Administration Authority) on up to 90(ninety) days usance basis.
- HR Coil, scrap, pig iron & sponge iron used for manufacturing of flat steel and long steel under steel industries for being used in own factories on up to 360(three hundred sixty) days usance basis.
- For such deferred payment imports, the prices must be internationally competitive and usance interest, if any, may bear mark-ups over LIBOR according to the prevailing market conditions subject to overall cost not exceeding 6(six) percent per annum for the relative period. define back to back LC. state it's opening procedures

Incoterms (Short Notes – Oct 2023)

Incoterms, short for International Commercial Terms, are a standardized set of rules published by the International Chamber of Commerce (ICC) that define the terms of delivery and the responsibilities, risks, and costs associated with the transportation of goods between international buyers and sellers.

List of Incoterms with categorization in the order of the delivery location from seller to buyer:

(Departure)	Carriage Unpaid)	Carriage Paid)	(Arrival)
• EXW (Ex Works)	• FCA (Free Carrier) • FAS (Free Alongside Ship) • FOB (Free On Board)	• CFR (Cost and Freight) • CIF (Cost, Insurance and Freight) • CPT (Carriage Paid To) • CIP (Carriage and Insurance Paid To)	• DAP (Delivered At Place) • DPU (Delivered At Place Unloaded) • DDP (Delivered Duty Paid)

Importance of Incoterms in international trade

Incoterms play a critical role in international trade, providing a framework for the negotiation and execution of contracts for the sale of goods. Here are eight key reasons why Incoterms are so important:

- **Clarify the parties' obligations and responsibilities:** Incoterms provide a clear and concise description of the obligations and responsibilities of both the buyer and seller in relation to the delivery of goods.
- **Facilitate international trade:** The use of standardized Incoterms provides a common language that can be easily understood by parties from different countries, cultures, and legal systems, which can help to facilitate international trade.
- **Reduce the risk of disputes:** Incoterms provide clarity on the allocation of risks and responsibilities, reducing the likelihood of disputes arising between the parties.
- **Ensure compliance with regulations**: Incoterms help to ensure compliance with relevant laws and regulations in the countries of export and import, such as customs regulations, export controls, and tax requirements.
- **Determine the cost of goods**: Incoterms clarify which party is responsible for various costs associated with transportation and delivery, such as insurance, customs duties, and freight charges, helping to determine the final price of goods.
- **Provide certainty for all parties**: Incoterms provide certainty for all parties involved in a transaction, as each party knows their obligations and responsibilities in relation to the delivery of goods.
- **Streamline logistics:** Incoterms help to streamline logistics operations by specifying the delivery location, transportation mode, and other important details, ensuring that goods arrive on time and in good condition.
- **Enable efficient risk management**: Incoterms enable efficient risk management by clarifying which party is responsible for various risks associated with the delivery of goods, such as damage or loss in transit. This helps to ensure that risks are properly allocated and managed by the parties involved.

Responsibilities of buyer and seller under each Incoterm

The responsibilities of the buyer/importer and seller/exporter under each Incoterm in relation to cost and risk:

EXW – Ex Works (named place of delivery)

- The seller makes the goods available at their premises, but the buyer incurs all the risks of bringing the goods to the final destination. This term places the maximum obligation on the buyer and minimum obligations on the seller. EXW is regularly used when making an initial quotation for the sale of goods without any transportation costs included.
- If parties wish the seller to be responsible for loading the goods and bearing the risks and costs of loading, this must be made clear by adding concrete wording in the contract of sale.

FCA – Free Carrier (named place of delivery)

- Seller delivers the goods, cleared for export, at a named place, including the seller's own premises. The goods can be delivered to a carrier named by the buyer, or to another party named by the buyer.
- Seller is responsible for loading the goods onto the buyer's carrier if the delivery occurs at the seller's premises. If the delivery occurs at any other place, the seller is deemed to have delivered the goods once their transport has arrived at the name place and the buyer is responsible for both unloading the goods and loading them onto their own carrier.

Contd...

CPT – Carriage Paid To (named place of destination)

- Seller pays for the carriage of goods up to the named place at the destination country. But the goods are considered to be delivered when handed over to the first or main carrier. This means the risk transfers to the buyer upon handing goods over to that carrier at the place of shipment in the country of export. The seller has fulfilled their obligation when goods are handed over to the carrier, not when they reach the destination.
- Seller is responsible for origin costs, including export clearance and freight costs for shipment to the named place of destination. This could be either the final destination such as the buyer’s facilities or a port of destination. This has to be agreed to by the seller and buyer, however.

CIP – Carriage and Insurance Paid to (named place of destination)

- Similar to CPT, except the seller is required to obtain insurance for the goods while in transit. Under Incoterms 2020, CIP requires the seller to insure the goods for 110% of the contract value. Again, the seller has fulfilled his obligation when the goods are handed over to the carrier, not when goods reach their destination. Risk transfers from seller to the first carrier upon handing over the goods.

Contd…

DAP – Delivered At Place (named place of destination)

- Seller’s obligation is fulfilled when the goods are ready for unloading onto the incoming transport at the specified destination. Buyer bears the costs and risks of unloading the goods, arranges import customs clearance and import taxes if necessary.

DPU – Delivered At Place Unloaded (named place of destination)

- Seller is required to deliver the goods and unload them at the named place of destination. The seller covers all the costs of transport including export fees and carriage, unloading from the main carrier at destination port and destination port charges and assumes all risk until arrival at the destination port or terminal.
- Seller’s obligation is fulfilled once the goods are unloaded at specified destination and carries risk until arrival at the destination port or terminal. All charges after unloading (for example, import duty, taxes, customs and on-carriage) are to be borne by the buyer. However, it is important to note that any delay or demurrage charges at the terminal will generally be paid by the seller.

Contd...

DDP – Delivered Duty Paid (named place of destination)

- Seller is responsible for delivering the goods to the named place in the country of destination and pay all costs in bringing goods to the destination (incl. import duties and taxes). Buyer is responsible for the unloading. Risk is transferred to the buyer at the delivery of the goods at the named place of destination.
- DDP requires the seller to be aware of any duties, taxes and regulations in the buyer's country and should thus be used with caution.

Contd…

Incoterms for Sea and Inland Waterway Transport

These are the four Incoterms 2020 for international trade where transportation is conducted entirely by water.

It should be noted that these Incoterms are generally not suited for shipments in ocean freight containers. This is because the point at which risk and responsibility transfer is when the goods are loaded on board of the ship – in containers it is impossible to verify the condition of the goods at this point.

FAS – Free Alongside Ship (named port of shipment)

The shipment is considered delivered when the goods are placed alongside the buyer’s vessel at the named port of shipment. This means that the buyer bears the costs and risks from that moment. FAS requires the seller to clear the goods for export by default. For alternative arrangements, the contract of sale should be modified.

Contd...

FOB – Free on Board (named port of shipment)

- Seller bears all costs and risks up to when the goods are loaded on board the vessel. The seller's obligations include the customs clearance of the export of the goods in the country of departure.

CFR – Cost and Freight (named port of destination)

- Seller pays for the carriage of the goods up to the named port of destination. Risk transfers to the buyer when the goods have been loaded on board the ship in the country of export.
- The seller is responsible for origin costs including export clearance and freight costs for carriage to the named port. The shipper is not responsible for delivery to the final destination from the port or for buying insurance.

CIF – Cost, Insurance & Freight (named port of destination)

- Seller is responsible until the goods have been unloaded from the deck at the port of destination. The seller must handle customs clearance, main transport to the port of destination and the insurance for the goods. Seller's delivery obligation ends upon handing goods over to the carrier.

Questions: Chapter – 05	Year
Explain any 5 as per UCP 600 i) Issuing Bank ii) Force Majeure iii) Banking Day iv) Assignment of Proceeds v) Bill of Lading vi) Clean Transport Documents vii) Advising Bank viii) Honour	Oct-2023
What are the Local and Foreign regulations of foreign exchange business?	May-2023
Explain the following as per UCP-600: i) Complying Presentation ii) Nominated Bank iii) Confirmation iv) Banking Day v) Commercial Invoice vi) Transferring Bank vii) Negotiation viii) Beneficiary ix) Presenter x) Clean Transport Document	May-2023
Explain following terms in the light of UCP-600: Honor, Bill of Lading, Nominated Bank, Transferable Credit, Banking Day, Activities of money changer, Negotiation, Commercial Invoice, Clean Transport Document, Assignment of Proceed, Complying Presentation	Nov 2022
Discuss following issues as per latest Guidelines for Foreign Exchange Transactions (GFET) of Bangladesh Bank: Advance payment for import, Issuance of foreign currency for travel abroad, Import on deferred/usance basis:its allowed items/commodities and tenor of usance.	Nov 2022
Discuss following Transport Documents. State who can issue and what are the information the documents must contain as per UCP-600: i) Bill of Lading ii) Airway Bill iii) Truck Receipt iv) Multimodal Transport Document	May 2022
Explain following terms in the light of UCP-600: i) Complying Presentation, ii) Transferring Bank iii) Negotiation iv) Nominated Bank v) Banking Day vi) Counter Party Bill of Lading vii) Clean Transport Document viii) Commercial Invoice	May 2022
Explain any five (05) of the following terms in the light of UCP-600: Credit VS. Contract, Transferable Letter of Credit, Complying Presentation, Clean Transport Documents, Banking Day, Confirmation, Commercial Invoice	Oct 2021
a) Define Incoterms. State all Incoterms under Incoterms -2020. b) Why the Inco-terms so important in the international trade? c) Describe responsibilities of both buyer and seller under any 04(Four) Incoterms.	Oct 2021
Explain the following terms as per UCP 600: Complying presentation, Negotiation Commercial invoice, Nominated Bank, Beneficiary, Clean Transport Document, Confirmation, Banking day, Presenter, Claiming Bank,	April 2020
Negotiation, Honor , Complying Presentation, Nominated Bank, Clean Transport Document, Transferring Bank, Blank Back Bill of Ladding, Multimodal transport	Oct 2019

Thank You

Contact Information:
Cell: 01787681086
Email: mrahmanmurad@gmail.com

INTERNATIONAL TRADE AND FINANCE

MAHMUDUR RAHMAN, CDCS
SEVP & HEAD OF DHAKA CENTRAL ZONE
ISLAMI BANK BANGLADESH LIMITED

CHAPTER 06: FOREIGN EXCHANGE MARKET & EXCHANGE ARITHMETIC

Exchange Rate, Spot & Forward Rate, Future & Forward Rate Agreement, Option Contracts, Swaps, Exchange Arithmetic, Roll Over Contracts, Arbitrage, Short & Long Position, Dealing Room Operations, Nostro-Vostro-Loro Accounts

Exchange Rate

- Ratio between two currencies/relative prices of two currencies. Rate at which number of units of one currency can be exchanged for number of units of another currency.
- It is basically a price to be paid like any other commodity/trading. Here, the price is quoted for one currency against the other.
- Hence, it is a price of one currency in terms of another currency.
- Example: USD 1= BDT 77.70-77.75

Fixed & Floating Exchange Rate

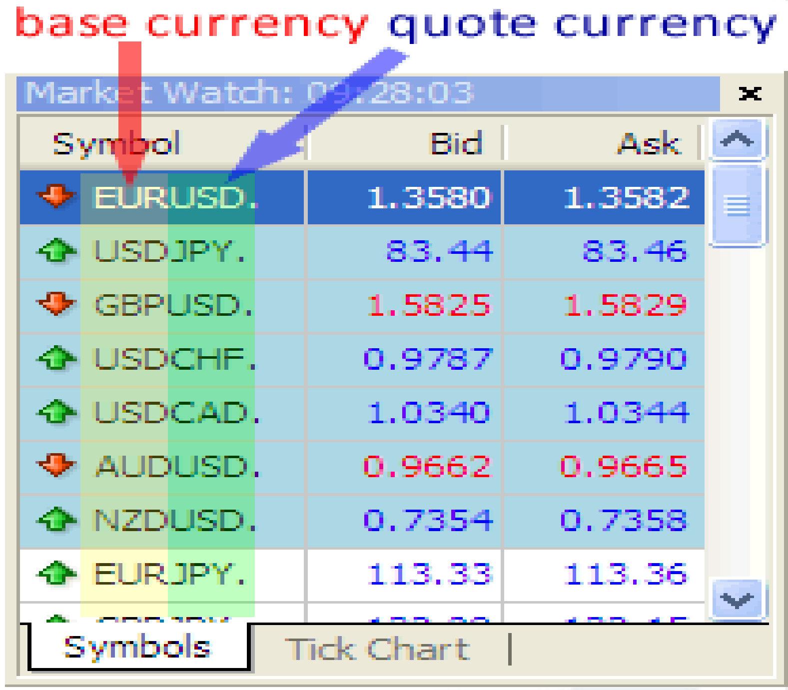
- **Fixed Exchange Rate:**
- Maintain the external value of their currency at a pre-determined level. Whenever the fixed exchange rate deviates from the pre-determined level, it is corrected by official intervention.
- **Floating Exchange Rate:**
- Floating rates refers to a system where exchange rates are determined by the demand for and supply of foreign exchange in the market. The rates are free to fluctuate as per demand & supply of currency in market. The Central Bank does not intervene in the market to correct any disequilibrium directly.

Types of Foreign Exchange rate

- **Spot Rate:** the rate at which one currency can be purchased for another currency for immediate delivery and settlement. i.e. Spot rate of USD/BDT – 77.70/77.75
- **Forward Rate:** the rate prevailing in the forward or future market (segment of the foreign exchange market). It indicates the rate of foreign exchange at a future date. i.e. 30day's FWD rate of USD/BDT– 78.28/78.33
- **Bid Rate & Ask Rate:** The term "bid" refers to the highest price a buyer will pay to buy a specified number of shares of a stock at any given time. The term "ask" refers to the lowest price at which a seller will sell the stock.
- **Spread:** Difference between Bid Rate & Ask Rate

Quoting system of Exchange Rates/Dealing Terminology

- **Two way quotations:**
- The FX quotation between banks will have two rates, one at which quoting bank is willing to buy (BID) and other at which it is willing to sell (ASK) the Foreign Exchange.
- **Direct Quotes:** Direct Quote is also called Home currency quotations. Here the number of units of foreign currency is kept constant and any change is made by changing the home currency units.
  i.e. USD/BDT -- 1 USD = BDT 78.90-78.95
- **Indirect Quotes:** Indirect quote is known as foreign currency quotation. Here exchange rate is changed by changing the foreign currency and keeping the domestic currency constant.
- i.e. BDT/USD BDT 100=USD 1.2666-1.2674 (100/78.95 & 78.90)



Principles

Direct Quote=

"Buy low sell high"

USD/BDT

75.7000

75.7500

Indirect Quote=

"Buy high sell low"

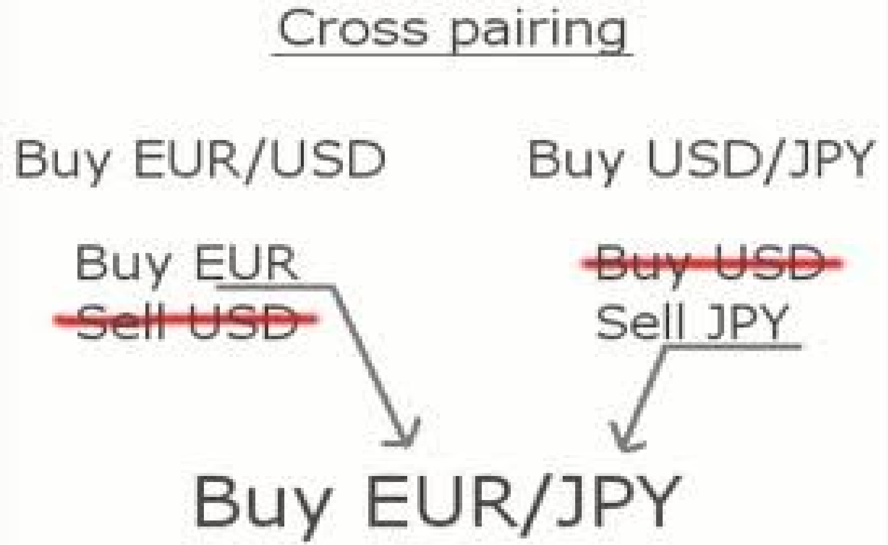
BDT/USD (100)

1.2862

1.3210

Cross Rate

- The cross rate is the exchange rate between currency A and currency C derived from actual exchange rate between currency A and currency B and between currency B and currency C.
- Sometimes cross rate is referred to an exchange rate between two currencies not involving the US dollar.
- Usually any rate that is quoted against a non-USD currency pair like EUR/GBP, JPY/BDT, CAD/CHF etc.



Future and Forward Rate Agreement

- **Future** is a standardized contract to buy or sell an asset at a specified price on a specified future date. Futures are traded on exchanges, and they have set contract sizes and delivery dates. For example, a corn future contract is a contract to buy or sell 5,000 bushels of corn on the Chicago Mercantile Exchange on a specified future date.
- **Forward rate agreement (FRA)** is a contract between two parties to exchange interest payments on a notional amount of money. FRAs are not traded on exchanges, and they can be customized to meet the specific needs of the parties involved. For example, a company that borrows money at a floating interest rate might use an FRA to lock in a fixed interest rate for a future period.

Option Contract & SWAP

- **Option contract** is a contract that gives the buyer the right, but not the obligation, to buy or sell an asset at a specified price on or before a specified date. Options are traded on exchanges, and they have set contract sizes and expiration dates. For example, an investor might buy an option to buy 100 shares of Apple stock at $100 per share by January 15, 2024. If the stock price is above $100 on January 15, 2024, the investor can exercise the option and buy the stock at $100 per share.
- **Swap** is a contract between two parties to exchange cash flows over a period of time. Swaps can be used to exchange interest payments, currencies, or other financial products. For example, a company that borrows money in euros might use a swap to exchange its euro interest payments for US dollar interest payments.

Roll Over Contract, Arbitrage, Short Position, Long Position

- **Roll over contracts** is the process of renewing or extending a financial contract, such as a futures contract or a swap. This is typically done when the contract is approaching its expiration date. For example, a company that has a 3-month futures contract on oil might roll it over to a 6-month contract if it expects the price of oil to remain stable or to rise in the next 3 months.
- **Arbitrage** is the simultaneous buying and selling of an asset in different markets in order to profit from the difference in prices. This is possible because prices of the same asset can vary slightly in different markets due to factors such as liquidity and transaction costs. For example, an investor might buy euros in the spot market and sell them in the forward market if the forward rate is higher than the spot rate. This would lock in a profit for the investor, regardless of whether the euro's value rises or falls in the future.
- **Short position** is an investment position in which an investor sells an asset that they do not own, with the expectation of buying it back at a lower price in the future. This can be done to profit from a decline in the price of the asset, or to hedge against a potential rise in the price. For example, an investor might sell short a stock that they believe is overvalued, with the expectation of buying it back at a lower price in the future.
- **Long position** is an investment position in which an investor buys an asset that they believe will appreciate in value. This can be done to profit from a rise in the price of the asset, or to hedge against a potential decline in the price. For example, an investor

Dealing Room

Dealing room instruments are the financial instruments that are traded in a dealing room. These instruments can be classified into two main categories:

- **Cash instruments** are financial instruments that are settled immediately. This means that the buyer and seller of the instrument exchange the cash and the underlying asset on the same day. Examples of cash instruments include currencies, bonds, and equities.
- **Derivative instruments** are financial instruments that derive their value from an underlying asset. This means that the price of the derivative instrument will move up or down in line with the price of the underlying asset. Examples of derivative instruments include futures, forwards, and options.

Most common dealing room instruments:

- **Currencies:** Currencies are the most common trading instrument in the dealing room. They are traded in pairs, such as EUR/USD and USD/JPY.
- **Bonds:** Bonds are debt securities that are issued by governments and corporations. They are traded on the basis of their yield, which is the interest rate that the bondholder will receive.
- **Equities:** Equities are shares of ownership in a company. They are traded on the basis of their price, which reflects the market's assessment of the company's future earnings potential.
- **Derivatives:** Derivatives are financial instruments that derive their value from an underlying asset. They are used to hedge against risk or to speculate on future price movements.

Dealing room operations are a critical part of the financial system. They allow banks and other financial institutions to manage their risk, provide liquidity to the markets, and make profits.

Dealing Room

Dealing room operations are the activities that take place in a dealing room. These activities include:

- **Trading:** Traders in the dealing room buy and sell financial instruments on behalf of the bank's clients or for the bank's own account.
- **Risk management:** The risk management team monitors the bank's exposure to risk and takes steps to mitigate that risk. This includes using hedging strategies and setting limits on the amount of risk that the bank is willing to take.
- **Settlement:** The settlement team ensures that all trades are executed and settled correctly. This includes transferring funds between the parties involved in the trade and delivering the underlying assets.
- **Back office:** The back office is responsible for processing all of the paperwork associated with trades. This includes generating invoices, tracking deliveries, and managing collateral.

Dealing room operations are a complex and demanding business. They require a deep understanding of financial markets, as well as the ability to manage risk and execute trades quickly and efficiently.

Nostro, Vostro & Loro Account

- **Nostro account** is a bank account that one bank maintains with another bank in a foreign currency. The term "nostro" is Latin for "ours". From the perspective of the bank that maintains the account, the funds in the account are considered to be its own funds. Nostro accounts are typically used to facilitate foreign exchange transactions and to hold foreign currency reserves.
- **Vostro account** is a bank account that a foreign bank maintains with a domestic bank in the domestic currency. The term "vostro" is Latin for "yours". From the perspective of the domestic bank, the funds in the account are considered to be the foreign bank's funds. Vostro accounts are typically used to facilitate foreign exchange transactions and to hold domestic currency deposits for foreign banks.
- **Loro account** is a bank account that a bank maintains for its own customers. The term "loro" is Italian for "theirs". Loro accounts are typically used to hold funds for customers who are conducting foreign exchange transactions or who have foreign currency deposits.

Year wise Question Analysis

Exam	Question Type
November 2023	Export
May 2023	Remittance
November 2022	Export
May 2022	Remittance
October 2021	Export
April 2020	Remittance
October 2019	Export
April 2019	Remittance
October 2018	Export
April 2018	Remittance

Question – Nov 2023 (Export)

c) Suppose, Mr. X is a renowned exporter. He is willing to sell an export bill of Euro 20,000 at sight basis. Calculate applicable exchange rate for purchasing the bill under Bai-as-Sarf and total value to be paid to the customer based on following information:

i.	EURO/USD Rate	1.1770-1.1775
	USD/BDT Rate	109.5000-109.5500
ii.	Transit Period	21 days (1 year = 360 days)
iii.	Collection Charge	0.25%
iv.	Bank's Profit	9% P.A
v.	Postage Charge	Tk. 0.15 per EURO
vi.	Foreign Correspondence Charge	Tk.0.10 per EURO

Question – Nov 2023 (Export)

c) Suppose, Mr. X is a renowned exporter. He is willing to sell an export bill of Euro 20,000 at sight basis. Calculate applicable exchange rate for purchasing the bill under Bai-as-Sarf and total value to be paid to the customer based on following information:

i.	EURO/USD Rate	1.1770-1.1775
	USD/BDT Rate	109.5000-109.5500
ii.	Transit Period	21 days (1 year = 360 days)
iii.	Collection Charge	0.25%
iv.	Bank's Profit	9% P.A
v.	Postage Charge	Tk. 0.15 per EURO
vi.	Foreign Correspondence Charge	Tk.0.10 per EURO

Solution:

The given Exchange Rate **quoted directly**. As per maxim of direct quotation, **"buy low, sell high"**

Here, The AD will buy FC (EURO) in BDT to the customer, therefore we need to find out the buy price of EURO in TK.

Rate(s) Given

	BID/Buy Rate		ASK/Offer/Sell Rate
EURO/USD	1.1770	-	1.1775
USD/BDT	109.5000	-	109.5500

(EURO/BDT)buy = (EURO/USD)buy X (USD/BDT)buy= 1.1770 x 109.5000	=		BDT 128.8815
Collection Charge @0.25% [Per EURO] = $\frac{128.8815 \text{ X } 0.25}{100}$	=	(-)	BDT 0.3222
Bank's Profit@9%per annum= $\frac{128.8815 \text{ X } 21 \text{ X } 9}{360 \text{ X } 100}$	=	(-)	BDT 0.6766
Postage Charge Tk. 0.15 [Per EURO]	=	(-)	BDT 0.1500
Foreign Correspondence Charge Tk. 0.10 [Per EURO]	=	(-)	BDT 0.1000
So, Applicable Rate for per EURO [(EURO/BDT)buy - CC - BP - PC - FCC] **(128.8815 - 0.3222 - 0.6766 - 0.1500 - 0.1000)**	**=**		**BDT 127.6327**
Total amonut required to pay (EURO 20000.00 X 127.6327)	**=**		**BDT 2,552,654.00**

Question – May 2023 (Remittance)

A customer wants to remit EURO 8000 through FTT for his daughter who is studying in Finland. Considering information given below calculate the EUR/BDT rate & how much amount you will charge for the customer.

i)Rate available: EURO/USD : 1.0910 - 1.0915

USD/BDT : 107.15 - 107.20

ii) FTT Charge: @ 0.20%

iii) Fixed Overhead Cost: Tk.0.15 (Per EURO)

iv) Profit Margin: 0.15%

v) Rebate to be allowed for the customer 0.25% for a period of 15 days (360 days in a year)

Solution – May 2023 (Remittance)

Solution:

The given Exchange Rate **quoted directly**. As per maxim of direct quotation, **"buy low, sell high"**

Here, The AD will sell FC (EURO) in BDT to the customer, therefore we need to find out the sell price of EURO in TK.

Rate(s) Given

	BID/Buy Rate		ASK/Offer/Sell Rate
EURO/USD	1.0910	-	1.0915
USD/BDT	107.1500	-	107.2000

(EURO/BDT)sell = (EURO/USD)sell X (USD/BDT)sell = 1.0915 x 107.20	=		BDT 117.0088
FTT Charge @0.20% [Per EURO] $\frac{117.0088X0.20}{100}$	=	(+)	BDT 0.2340
Fixed Overhead Cost [Per EURO]	=	(+)	BDT 0.1500
Profit Margin @0.15% $\frac{117.0088 X 0.15}{100}$	=	(+)	BDT 0.1755
Rebate @0.25% for 15 days $\frac{117.0088 X 0.25 X 15}{360 X 100}$	=	(-)	BDT 0.0122
So, Applicable Rate for per EURO (117.0088+0.2340+0.1500+0.1755-0.0122)	=		BDT 117.5561
Total amonut required to pay for EURO 8000.00 (8000 X 117.5561)	**=**		**BDT 940,448.80**

Question: November 2022 (Export)

c) A customer wants to sell an export bill of EURO 15000 at sight basis. Calculate applicable exchange rate for purchasing the bill under Bai-as-Sarf and to be paid to the customer's account considering the following information: 12

i) EURO/USD Rate	1.1250-1.1255
USD/BDT Rate	95.5060-95.5070
ii) Transit Period	21 days (1 Year=360 days)
iii) Collection Charge	0.25%
iv) Bank's Profit	5% per annum
v) Postage Charge	Tk. 0.15 per EURO
vi) Foreign Correspondence Charge	Tk.0.10 per EURO

Solution: November 2022 (Export)

The given Exchange Rate **quoted directly**. As per maxim of direct quotation, **"buy low, sell high"**

Here, The AD will buy FC (EURO) in BDT to the customer, therefore we need to find out the buy price of EURO in TK.

Rate(s) Given

	BID/Buy Rate		ASK/Offer/Sell Rate
EURO/USD	1.1250	-	1.1255
USD/BDT	95.5060	-	95.5070

(EURO/BDT)buy = (EURO/USD)buy X (USD/BDT)buy= 1.1250 X 95.5060	=		BDT 107.4443
Collection Charge @0.25% [Per EURO] = $\frac{107.4443 \text{ X } 0.25}{100}$	=	(-)	BDT 0.2686
Bank's Profit@5% per annum= $\frac{107.4443 \text{ X } 21 \text{ X } 5}{360 \text{ X } 100}$	=	(-)	BDT 0.3134
Postage Charge Tk. 0.15 [Per EURO]	=	(-)	BDT 0.1500
Foreign Correspondence Charge [Per EURO]	=	(-)	BDT 0.1000
So, Applicable Rate for per EURO [(EURO/BDT)buy - CC - BP - FCC] **(107.4443 - 0.2686 - 0.3134 - 0.1500 - 0.1000)**	**=**		**BDT 106.6123**
Total amonut required to pay (EURO 15000.00 X 106.6123)	**=**		**BDT 1,599,184.50**

Question: May 2022 (Remittance)

c) A client wants to remit GBP15000 through FTT for his son studying abroad. Calculate the rate for GBP against BDT and how much amount you will charge the client considering the following information. 12

i) GBP/USD Rate	1.3590-1.3595
USD/BDT Rate	87.00-87.05
ii) FTT Charge	0.10%
iii) Fixed Overhead Cost	Tk. 0.20 (Per GBP)
iv) Profit Margin	0.15%
v) Rebate to be allowed to the client	0.25% for a period of 15 days (360 days in a year)

Solution: May 2022 (Remittance)

Solution:

The given Exchange Rate **quoted directly**. As per maxim of direct quotation, **"buy low, sell high"**

Here, The AD will sell FC (GBP) in BDT to the customer, therefore we need to find out the sell price of GBP in TK.

Rate(s) Given

	BID/Buy Rate		ASK/Offer/Sell Rate
GBP/USD	1.3590	-	1.3595
USD/BDT	87.0000	-	87.0500

(GBP/BDT)sell = (GBP/USD)sell X (USD/BDT)sell = 1.3595 X 87.0500	=		BDT 118.3445
FTT Charge @0.10% [Per GBP] $\frac{118.3445 \times 0.10}{100}$	=	(+)	BDT 0.1183
Fixed Overhead Cost [Per GBP]	=	(+)	BDT 0.2000
Profit Margin @0.15% $\frac{118.3445 \times 0.15}{100}$	=	(+)	BDT 0.1775
Rebate @0.25% for 15 days $\frac{118.3445 \times 0.25 \times 15}{360 \times 100}$	=	(-)	BDT 0.0123
So, Applicable Rate for per GBP (118.3445+0.1183+0.20+0.1775-0.0123)	=		BDT 118.8280
Total amonut required to pay for GBP 15000.00 (15000 X 118.8280)	=		**BDT 1,782,420.00**

Question – October 2021 (Export)

c) A customer wants to sell an export bill for EURO 15000 at sight basis. Calculate applicable exchange rate for purchasing the above bill under Bai-as-Sarf and total value to be paid to the customer under following data:

i) EURO/USD Rate	1.1870-1.1875
USD/BDT Rate	84.8050-84.8070
ii) Transit Period	21 days (1 Year-360 days)
iii) Collection Charge	0.25%
iv) Bank's Profit	7% P.A
v) Postage Charge	Tk. 0.15 per EURO
vi) Foreign Correspondence Charge	Tk. 0.10 per EURO

Solution – Oct 2021 **(Export)**

The given Exchange Rate **quoted directly**. As per maxim of direct quotation, **"buy low, sell high"**

Here, The AD will buy FC (EURO) in BDT to the customer, therefore we need to find out the buy price of EURO in TK.

Rate(s) Given

	BID/Buy Rate		ASK/Offer/Sell Rate
EURO/USD	1.1870	-	1.1875
USD/BDT	84.8050	-	84.8070

(EURO/BDT)buy = (EURO/USD)buy X (USD/BDT)buy= 1.1870 X 84.8050		=		BDT 100.6635
Collection Charge @0.25% [Per EURO] =	$\frac{100.6635 \times 0.25}{100}$	=	(-)	BDT 0.2517
Bank's Profit@7% per annum=	$\frac{100.6635 \times 21 \times 7}{360 \times 100}$	=	(-)	BDT 0.4110
Postage Charge Tk. 0.15 [Per EURO]		=	(-)	BDT 0.1500
Foreign Correspondence Charge [Per EURO]		=	(-)	BDT 0.1000
So, Applicable Rate for per EURO [(EURO/BDT)buy - CC - BP - PC - FCC] **(100.6635 - 0.2517 - 0.4110 - 0.1500 - 0.1000)**		**=**		**BDT 99.7508**
Total amonut required to pay (EURO 15000.00 X 99.7508)		**=**		**BDT 1,496,262.00**

Question: April 2020 (Remittance)

Question: April 2020

A customer wants to remit EURO 5000 through FTT for his son studying abroad. From the following information **calculate what the rate for per EURO against BDT and how much amount you will charge form the customer?**

i)Rate available: EURO/USD : 1.118-1.1190

USD/BDT : 84.9000-84.9500

ii) FTT Charge: @ 0.20%

iii) Fixed Administrative Cost: Tk.0.15 (Per EURO)

iv) Profit Margin: 0.12

v) Rebate to be allowed for the customer 0.25% for a period of 14 days (360 days in a year)

Solution: April 2020 (Remittance)

Solution:

The given Exchange Rate **quoted directly**. As per maxim of direct quotation, **"buy low, sell high"**

Here, The AD will sell FC (EURO) in BDT to the customer, therefore we need to find out the sell price of EURO in TK.

Rate(s) Given

	BID/Buy Rate		ASK/Offer/Sell Rate
EURO/USD	1.1180	-	1.1190
USD/BDT	84.9000	-	84.9500

(EURO/BDT)sell = (EURO/USD)sell X (USD/BDT)sell = 1.1190 X 84.9500		=		BDT 95.0591
FTT Charge @0.20% [Per EURO]	$\frac{95.0591 \text{X} 0.20}{100}$	=	(+)	BDT 0.1901
Fixed Administritive Cost [Per EURO]		=	(+)	BDT 0.1500
Profit Margin @0.12%	$\frac{95.0591 \text{ X } 0.12}{100}$	=	(+)	BDT 0.1141
Rebate @0.25% for 14 days	$\frac{95.0591 \text{ X } 0.25 \text{ X } 14}{360 \text{ X } 100}$	=	(-)	BDT 0.0092
So, Applicable Rate for per EURO (95.0591+0.1901+0.1500+0.1141-0.0092)		=		BDT 95.5041
Total amonut required to pay for EURO 5000.00 (5000 X 95.5041)		=		**BDT 477,520.50**

Question – Oct 2019 **(Export)**

c) A customer intends to sell an export documents for USD10,000 at sight basis. Calculate applicable rate for purchasing the above documents under Bai-as-sarf and total value to be paid the customer under the data: 13

i) Spot Rate USD/BDT : 83.80-84.80
ii) Transit period : 21 days (1 Year 360 days)
iii) Collection charge : 0.20 %
iv) Bank profit : @ 6% PA
v) Postage charge : Tk.0.15 per USD
vi) Foreign correspondent charge: Tk.0.10 per USD

Solution – Oct 2019 **(Export)**

The given Exchange Rate **quoted directly**. As per maxim of direct quotation, **"buy low, sell high"**

Here, The AD will buy FC (USD) in BDT to the customer, therefore buy rate is applicable for calculating applicable rate

Rate(s) Given

	BID/Buy Rate		ASK/Offer/Sell Rate
USD/BDT	83.8000	-	84.8000

Spot Rate (USD/BDT)buy		=		BDT 83.8000
Collection Charge @0.20% [Per USD]=	$\frac{83.80 \times 0.20}{100}$	=	(-)	BDT 0.1676
Bank's Profit@6% per annum=	$\frac{83.8000 \times 21 \times 6}{360 \times 100}$	=	(-)	BDT 0.2933
Postage Charge Tk. 0.15 [Per USD]		=	(-)	BDT 0.1500
Foreign Correspondence Charge [Per USD]		=	(-)	BDT 0.1000
So, Applicable Rate for per USD [(USD/BDT)buy - CC - BP - PC - FCC] **(83.8000 - 0.1676 - 0.2933 - 0.1500 - 0.1000)**		**=**		**BDT 83.0891**
Total amonut required to pay (USD 10000.00 X 83.0891)		**=**		**BDT 830,891.00**

Question: April 2018 & Apirl 2019 (Remittance)

Question: April 2019, 2018

Determine the rate for remitting GBP 5000 through FTT for study purpose as per following date & how much total amount so far paid:

i)Rates available GBP/USD : 1.3880-1.3885USD/BDT: 82.9000-83.6000

ii) FTT charges @ 0.25%

iii) Fixed overhead cost @ Tk.0.20 per GBP

iv) Profit margin for the bank @ 0.20%

v) Rate to be allowed to the customer; @ 0.30% for a period of 21 days (360 days in a year)

Solution: April 2018 & Apirl 2019 (Remittance)

Solution:

The given Exchange Rate **quoted directly**. As per maxim of direct quotation, **"buy low, sell high"**

Here, The AD will sell FC (GBP) in BDT to the customer, therefore we need to find out the sell price of GBP in TK.

Rate(s) Given

	BID/Buy Rate		ASK/Offer/Sell Rate
GBP/USD	1.3880	-	1.3885
USD/BDT	82.9000	-	83.6000

(GBP/BDT)sell = (GBP/USD)sell X (USD/BDT)sell = 1.3885X83.60		=		BDT 116.0786
FTT Charge @0.25% [Per GBP]	$\frac{116.0786X0.25}{100}$	=	(+)	BDT 0.2902
Fixed Overhead Cost [Per GBP]		=	(+)	BDT 0.2000
Profit Margin @0.20%	$\frac{116.0786 X 0.20}{100}$	=	(+)	BDT 0.2322
Rebate @0.30% for 21 days	$\frac{116.0786 X 0.30 X 21}{360 X 100}$	=	(-)	BDT 0.0203
So, Applicable Rate for per GBP (116.0786+0.2902+0.20+0.2322-0.0203)		=		BDT 116.7807
Total amonut required to pay for GBP 5000.00 (5000 X 116.7807)		**=**		**BDT 583,903.50**

Question – Oct 2018 **(Export)**

c) A customer intends to sell an export documents for USD 1, 00,000 at sight basis. Calculate applicable rate for purchasing the above documents under Bai-as-Sarf and total value to be paid to the customer under the following facts:

i) Spot Rate: USD/BDT-82.80-83.80
ii) Transit Period: 21 days (01 yr. 360 days)
iii) Collection Charge: 0.20%
iv) Bank Profit: @ 6% pa.
v) Postage Charge: Tk. 0.15 per USD
vi) Foreign Correspondent Charge: Tk. 0.10 per USD

Solution – Oct 2018 **(Export)**

Solution:

The given Exchange Rate **quoted directly**. As per maxim of direct quotation, **"buy low, sell high"**

Here, The AD will buy FC (USD) in BDT to the customer, therefore buy rate is applicable for calculating applicable rate

Rate(s) Given

	BID/Buy Rate		ASK/Offer/Sell Rate
USD/BDT	82.8000	-	83.8000

Spot Rate (USD/BDT)buy		=		BDT 82.8000
Collection Charge @0.20% [Per USD]=	$\frac{82.8000 \times 0.20}{100}$	=	(-)	BDT 0.1656
Bank's Profit@6% per annum=	$\frac{82.8000 \times 21 \times 6}{360 \times 100}$	=	(-)	BDT 0.2898
Postage Charge Tk. 0.15 [Per USD]		=	(-)	BDT 0.1500
Foreign Correspondence Charge [Per USD]		=	(-)	BDT 0.1000
So, Applicable Rate for per USD [(USD/BDT)buy - CC - BP - PC - FCC] **(82.8000 - 0.1656 - 0.2898 - 0.1500 - 0.1000)**		**=**		**BDT 82.0946**
Total amonut required to pay (USD 100000.00 X 82.0946)		**=**		**BDT 8,209,460.00**

Question: Oct 2017 **(Export)**

c) Calculate the exchange rate for purchasing an export bill under 180 days usance basis as per following assumptions:

i) Rates : EURO/USD : 1.2920 - 1.2930 (Paris)

USD/BDT : 81.1010 - 81.2020 (Dhaka)

ii) Bank's Profit Rate : @ 7% p.a.

iii) Bank's Charge/Fee per Euro : BTD 0.20

Rate = 1.2920 X 81.1010

Solution: Oct 2017 **(Export)**

The given Exchange Rate **quoted directly**. As per maxim of direct quotation, **"buy low, sell high"**

Here, The AD will buy FC (EURO) in BDT to the customer, therefore we need to find out the buy price of EURO in TK.

Rate(s) Given

	BID/Buy Rate		ASK/Offer/Sell Rate
EURO/USD	1.2920	-	1.2930
USD/BDT	81.1010	-	81.2020

(EURO/BDT)buy = (EURO/USD)buy X (USD/BDT)buy= 1.2920 X 81.1010	=		BDT 104.7825
Bank's Profit@7% per annum= $\frac{104.7825 \times 180 \times 7}{360 \times 100}$	=	(-)	BDT 3.6674
Bank Charge [Per EURO]	=	(-)	BDT 0.2000
So, Applicable Rate for per EURO [(EURO/BDT)buy -BP - BC] **(104.7825 - 3.6674 - 0.2000)**	**=**		**BDT 100.9151**

Question: Sep 2016 (Export)

b) Calculate the usance rate of 90 days usance export bill denominated in GBP by using following data

i) £1=$1.4920 - 1.4980 (London)

$1=Tk. 78.40 - 78.90 (Dhaka)

ii) Transit Period - 15 days

iii) Rate of Profit - 7% p.a.

iv) Profit margin on F.C - Tk. 0.20 per GBP

v) 360 days in a year

Soultion: Sep 2016 (Export)

The given Exchange Rate **quoted directly**. As per maxim of direct quotation, **"buy low, sell high"**						
Here, The AD will buy FC (GBP) in BDT to the customer, therefore we need to find out the buy price of GBP in TK.						
Rate(s) Given						
	BID/Buy Rate		ASK/Offer/Sell Rate			
GBP/USD	1.4920	-	1.4980			
USD/BDT	78.4000	-	78.9000			
(GBP/BDT)buy = (GBP/USD)buy X (USD/BDT)buy= 1.4920 x 78.40				=		BDT 116.9728
Bank's Profit@7% per annum=	$\frac{116.9728 \text{ X } 15 \text{ X } 7}{360 \text{ X } 100}$			=	(-)	BDT 0.3412
Profit Margin Tk. 0.20 [Per GBP]				=	(-)	BDT 0.2000
So, Applicable Rate for per GBP [(GBP/BDT)buy - BP - PM]				**=**		**BDT 116.4316**
(116.9728-0.3412-0.2000)						