

Higher National Unit Specification

General information for centres

Unit title: Treasury Management

Unit code: DE5X 35

Unit purpose: This Unit is designed to allow candidates to make candidates aware of the need to employ a variety of strategies to effectively manage risk in global trading situations. Candidates need to be aware of the various risks faced by traders in volatile markets and of the techniques used to reduce these financial and economic risks.

On completion of the Unit candidates should be able to:

1. Explain the role of the treasury management function within organisations.
2. Explain the methods used by companies to evaluate capital investment and equities.
3. Apply techniques for the identification and minimisation of trading risks.
4. Explain how global economic factors impact upon international trade.

Credit value: 1 HN Credit at SCQF level 8: (8 SCQF credit points at SCQF level 8*)

**SCQF credit points are used to allocate credit to qualifications in the Scottish Credit and Qualifications Framework (SCQF). Each qualification in the Framework is allocated a number of SCQF credit points at an SCQF level. There are 12 SCQF levels, ranging from Access 1 to Doctorates.*

Recommended prior knowledge and skills: Access to this Unit is at the discretion of the centre, however it is expected that candidates would have good written communication and numerical skills. These may be demonstrated by the achievement of core skill Communication at Intermediate 2 level, or by possession of Standard Grade English, or a suitable NC module, and core skill Using Numbers at Intermediate 2 level by possession of a relevant Unit or module.

Core skills: There may be opportunities to gather evidence towards core skills in this Unit, although there is no automatic certification of core skills or core skills components.

Context for delivery: This Unit is included in the framework of the HNC and HND Financial Services group awards. It is recommended that it should be taught and assessed within the context of the particular group awards to which it contributes.

General information for centres (cont)

Assessment: It is preferred that this Unit be assessed by an instrument of assessment that would require candidates to answer questions which may be based on a case study relating to a treasury management scenario, or may consist of restricted response questions.

If you wish to use a different assessment mode, you may wish to seek prior moderation of the assessment instrument(s) you intend to use. Please note that candidates must achieve all of the minimum evidence specified for each Outcome in order to pass the Unit.

It is expected that the case study will require the candidate to complete **seven** questions, two each from Outcomes 1, 2 and 3 and one from Outcome 4. It would be acceptable to provide a choice of questions for the candidate to attempt from each Outcome.

It is expected that the assessment should not normally take the average candidate more than two hours to complete.

An exemplar instrument of assessment and marking guideline has been produced to indicate the National standard of achievement required at SCQF level 8.

Higher National Unit specification: statement of standards

Unit title: Treasury Management

Unit code: DE5X 35

The sections of the Unit stating the Outcomes, knowledge and/or skills, and evidence requirements are mandatory.

Where evidence for Outcomes is assessed on a sample basis, the whole of the content listed in the knowledge and/or skills section must be taught and available for assessment. Candidates should not know in advance the items on which they will be assessed and different items should be sampled on each assessment occasion.

Outcome 1

Explain the role of the treasury management function within organisations.

Knowledge and/or skills

- Objectives of organisations
- Key stakeholders in organisations
- Influences on organisations
- Corporate governance
- Treasury function
- Inter company payments
- Dealing with cash surpluses

Evidence requirements

Each knowledge and skill is matched by a corresponding evidence requirement.

To ensure that a candidate has successfully achieved the standard required of each of the knowledge and skills listed above the corresponding evidence requirement from the list below should be met.

Evidence for the knowledge and skills in the outcome will be provided on a sample basis. This evidence may be presented as part of a written report or in response to a specific question or questions. Each candidate will need evidence to show that they can provide an accurate and clear explanation of the theoretical aspects of the outcome.

The sample must comprise of **two** of the knowledge and skills with a different combination of knowledge and skills being used each time the Outcome is assessed.

Higher National Unit specification: statement of standards (cont)

Unit title: Treasury Management

Candidates must provide a satisfactory response to the questions.

Where an item is sampled, a candidate's response can be judged to be satisfactory where the evidence provided is sufficient to meet the requirements for each sampled item by showing that the candidate is able to:

- Explain possible aims or objectives of organisations
- Describe the role or influence of key stakeholders in organisations
- Explain how environmental issues may influence corporate objectives
- Explain the impact of a relevant report on the nature of corporate governance
- Describe the functions of a Treasury Management division with a company
- Describe two methods of transferring payment between companies
- Explain two methods used by treasury managers to deal with short term or long term cash surpluses

Assessment guidelines

It is suggested that the assessment of this Outcome be combined with the other outcomes as part of a larger assessment and that a copy of the case study, when used, be given to candidates 7-10 days before the assessment opportunity. Candidates may bring a copy of the case study to the assessment but may not bring any other material. A sample of a case study has been produced as part of the exemplars.

Outcome 2

Explain the methods used by companies to evaluate capital investment and equities.

Knowledge and/or skills

- Capital investment appraisal methods
- Evaluation of equity
- Evaluation of debt
- Corporate restructuring
- Corporate reorganisation

Evidence requirements

Each knowledge and skill is matched by a corresponding evidence requirement.

To ensure that a candidate has successfully achieved the standard required of each of the knowledge and skills listed above the corresponding evidence requirement from the list below should be met.

Higher National Unit specification: statement of standards (cont)

Unit title: Treasury Management

Evidence for the knowledge and skills in the Outcome will be provided on a sample basis. This evidence will be presented as suitable responses to specific questions. Each candidate will need evidence to show that they can provide an accurate and clear explanation of the theoretical aspects of the Outcome, and show accurate calculations where required. One error may be allowed in each calculation.

The sample must comprise of **two** of the knowledge and skills with a different combination of knowledge and skills being used each time the Outcome is assessed. It is suggested that at least one of the items sampled require the candidate to complete a calculation.

Where an item is sampled, a candidate's response can be judged to be satisfactory where the evidence provided is sufficient to meet the requirements for each sampled item by showing the candidate is able to:

- Explain, using calculations, two methods used by companies to evaluate capital investment
- Explain, using calculations, two methods used by companies to evaluate equity
- Explain, using calculations, two methods used by companies to evaluate debt
- Explain the rationale for, features of, or stages involved in a corporate merger or takeover
- Explain the rationale for, features of, or stages involved in a corporate reorganisation

Assessment guidelines

It is suggested that the assessment of this Outcome be combined with the other outcomes as part of a larger assessment and that a copy of the case study, when used, be given to candidates 7-10 days before the assessment opportunity. Candidates may bring a copy of the case study to the assessment but may not bring any other material.

Outcome 3

Apply techniques for the identification and minimisation of trading risks.

Knowledge and/or skills

- Identify risks in international trade
- Apply techniques used to minimise risk
- Explain the various exposure risks faced by companies trading internationally
- Explain the use of derivatives

Higher National Unit specification: statement of standards (cont)

Unit title: Treasury Management

Evidence requirements

Each knowledge and skill is matched by a corresponding evidence requirement.

To ensure that a candidate has successfully achieved the standard required of each of the knowledge and skills listed above the corresponding evidence requirement from the list below should be met.

Evidence for the knowledge and skills in the Outcome will be provided on a sample basis. This evidence may be presented as part of a written report, or in response to a specific question or questions. Each candidate will need evidence to show that they can provide an accurate and clear explanation of the theoretical aspects of the Outcome and accurate calculations where applicable.

The sample must comprise of **two** of the knowledge and skills with a different combination of knowledge and skills being used each time the Outcome is assessed.

Candidates must provide a satisfactory response to the theoretical questions. One error may be allowed in any calculation.

Where an item is sampled, a candidate's response can be judged to be satisfactory where the evidence provided is sufficient to meet the requirements for each sampled item by showing the candidate is able to:

- Explain two categories of risks that are faced by companies in international trade
- Apply, using formula and calculation if appropriate, one technique used to minimise risk in two of the categories of risk identified
- Explain the main features of transaction exposure and one other exposure risk
- Explain the use of a recognised derivative.

Assessment guidelines

It is suggested that the assessment of this Outcome be combined with the other Outcomes as part of a larger assessment and that a copy of the case study, when used, be given to candidates 7-10 days before the assessment opportunity. Candidates may bring a copy of the case study to the assessment but may not bring any other material. A sample of a case study has been produced as part of the exemplars.

Higher National Unit specification: statement of standards (cont)

Unit title: Treasury Management

Outcome 4

Explain how global economic factors impact upon international trade

Knowledge and/or Skills:

- Global economic issues
- Importance of international financial institutions
- Decisions made by companies when choosing to invest overseas

Evidence requirements:

Each knowledge and skill is matched by a corresponding evidence requirement.

To ensure that a candidate has successfully achieved the standard required of each of the knowledge and skills listed above the corresponding evidence requirement from the list below should be met.

Evidence for the knowledge and skills in the Outcome will be provided on a sample basis. This evidence may be presented as part of a report, or in response to a specific question or questions. Each candidate will need evidence to show that they can provide an accurate and clear explanation of the theoretical aspects of the outcome.

The sample must comprise of **one** of the knowledge and skills with a different combination of knowledge and skills being used each time the Outcome is assessed.

Candidates must provide a satisfactory response to the theoretical question.

Where an item is sampled, a candidate's response can be judged to be satisfactory where the evidence provided is sufficient to meet the requirements for each sampled item by showing the candidate is able to:

- Explain the impact of two global economic factors on multinational companies or traders
- Explain the importance of, or features of international financial institutions
- Explain the benefits or problems facing companies investing overseas

Assessment guidelines:

It is suggested that the assessment of this Outcome be combined with the other Outcomes as part of a larger assessment and that a copy of the case study, when used, be given to candidates 7-10 days before the assessment opportunity. Candidates may bring a copy of the case study to the assessment but may not bring any other material. A sample of a case study has been produced as part of the exemplars.

Administrative Information

Unit code:	DE5X 35
Unit title:	Treasury Management
Superclass category:	AL
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Higher National Unit specification: support notes

Unit title: Treasury Management

This part of the Unit specification is offered as guidance. The support notes are not mandatory.

While the exact time allocated to this Unit is at the discretion of the centre, the notional design length is 80 hours.

Guidance on the content and context for this Unit

Outcome 1 looks at the strategy introduced by multinational companies and international trading companies. It considers the influences upon that strategy, the decisions made in developing the strategy, and the frameworks that companies are expected to work within. It also looks at the role of the treasury function within that framework and examines the administrative function it performs.

Candidates should become familiar with relevant terminology and should make use of this.

It is expected that centres will cover the following topics:

- Corporate strategy
 - o Long term and short term objectives
 - o Corporate planning
 - o Growth strategies
- Stakeholder groups and their objectives
- Environmental influences
- Governance frameworks
 - o Greenbury, Cadbury, Hempel and Turnbull reports
 - o Role of executives in corporate governance
 - o Internal control – internal audit
 - o Audit committee
 - o Remuneration committee
 - o Stakeholder and shareholder expectations
 - o Best practice
 - o Statutory requirements
 - o Internal reporting
- Treasury function
 - o Role of the treasurer
 - o Example of a treasury department
 - o Corporate financial objectives
 - o Liquidity management
 - o Funding management
 - o Currency management
 - o Corporate finance
 - o Centralisation or decentralisation of cash management facilities

Higher National Unit specification: support notes (cont)

Unit title: Treasury Management

- Methods of payments between companies
- Dealing with cash surpluses
 - Use of long term and short term investments

Outcome 2 looks at the methods used by companies to determine whether existing capital investment is suitable and what decisions should be made about future investment. It considers the various techniques used to value these investments and the resultant impact of the decisions.

Candidates should become familiar with relevant terminology and should make use of this.

It is expected that centres will cover the following topics:

- Capital investment appraisal
 - Investment opportunities
 - Accounting rate of return
 - Payback
 - Discounted cash flow
 - Net present value
 - Internal rate of return
- Evaluation of the use of equity
 - Share valuations
 - Asset valuation bases
 - Earnings valuation bases
 - Cash flow valuation methods
 - Dividend bases
- Evaluation of the use of debt
 - Value of debentures
 - Convertibles and warrants
- Market analysis
- Advanced valuation models
 - Modigliani and Miller
 - Capital gearing
 - Impact on arbitrage
 - Adjusted present value method
 - Adjusted cost of capital

Higher National Unit specification: support notes (cont)

Unit title: Treasury Management

- Corporate restructuring
 - o Mergers and takeovers – rationale
 - o Factors in decisions
 - o Conduct of takeovers
 - Defences
 - Role of advisers
 - Payment methods
 - Position of shareholders
 - Regulation
 - Post-acquisition position
 - Impact on stakeholders
- Corporate reorganisation
 - o Divestments
 - o Management buy outs and buy ins
 - o Business failures
 - o Reverting to private limited status
- Efficient market hypothesis

Outcome 3 examines the methods used by treasury management to minimise the risks within international trade and multinational companies. It considers the various techniques used to reduce or eliminate risk.

Candidates should become familiar with relevant terminology and should make use of this.

It is expected that centres will cover the following topics:

- Risk policy
 - o Identifying risks
 - o Desire for risk
 - o Management style
 - o Risk auditing
 - o Risk mapping
 - o Reporting of risk management
- Role and use of insurance
- Business risk and market risk methods
- Cost of capital
 - o Ordinary share capital
 - o Dividend valuation model
 - o Share issue costs
 - o Preference shares
 - o Weighted average cost of capital
 - o Net present value of new projects

Higher National Unit specification: support notes (cont)

Unit title: Treasury Management

- Portfolio theory
 - Definition of portfolio
 - Expected returns
 - Risk
 - Positive, negative and zero correlation of investments
 - Investor preferences
 - Portfolio theory in relation to financial management
 - Problems with portfolio theory
 - Diversification
- Capital asset pricing model
 - Systematic and unsystematic risk
 - Beta factor
 - Market risk premium
 - CAPM formula
 - Practical implications of CAPM
 - Limitations of CAPM
 - International CAPM
 - Arbitrage pricing model
- Cash flow risk
- Credit risk
- Gearing risk
- Foreign Exchange risk
 - Exchange rates
 - Forex markets
 - Interpreting forex data
 - Risk and foreign exchange
 - Pooling
 - Hedging
 - Effect of failing to hedge
 - Partial hedge
 - Currency risks – transaction, translation and economic
- Managing transaction exposure
 - Direct risk reduction methods
 - Currency invoicing
 - Matching receipts and payments
 - Leads and lags
 - Matching long term assets and liabilities
 - Money market hedging
 - Forward exchange contracts
 - Fixed and option contracts
 - Interest rate parity
 - Futures
- Managing economic and translation exposure
- Definition and uses of derivatives

Higher National Unit specification: support notes (cont)

Unit title: Treasury Management

- Options
 - o Nature of options
 - o Share options
 - o Index options
 - o Currency options
- Interest rate risk
 - o Interest rates
 - o Yield curve
 - o Reverse yield gap
 - o Managing debt portfolio
 - o Forward rate agreements
 - o Interest rate futures
 - o Interest rate options
 - o Caps, collars and floors
 - o Interest rate guarantees
- SWAPS
 - o Currency swaps
 - o Interest rate swaps
 - o Swaptions

Outcome 4 examines the economic factors that impact upon international trade and multinational companies. It also looks at the role of international financial institutions in the economy and at the decisions that companies face when considering investing overseas.

Candidates should become familiar with relevant terminology and should make use of this.

It is expected that centres will cover the following topics:

Topics should include:

- Global economy
 - o Multinationals
 - o Global trends
 - o Direct and indirect investment overseas
 - o Barriers to entry
 - o Advantages of international trade
 - o Protectionism
 - o Free trade
 - o Tariffs
 - o Quotas
 - o Trade arrangements
 - o Balance of payments

Higher National Unit specification: support notes (cont)

Unit title: Treasury Management

- International financial institutions
 - o IMF
 - o World Bank (IBRD)
 - o Bank for International Settlements
 - o International Development Association
 - o Effects of global crises on firms
- Exchange rate agreements
- Purchasing power parity theory;
- Factors influencing exchange rates
- Exchange rate systems;
- Overseas investment decisions
- Forms of foreign investment
- Political risk
- Taxation
- Raising capital overseas
 - o Types
 - o Sources
 - o Benefits
 - o Drawbacks

Guidance on the delivery and assessment of this Unit

The unit is primarily intended to provide the candidate with an understanding of the decisions that are faced by multinational companies and those involved in international trade. It considers the types of risks faced by international funds transfer and looks at the techniques that are available to minimise risk. With this in mind, the role of the Treasury Management division within a company is closely examined.

Open learning

If this Unit is delivered by open or distance learning methods, additional planning and resources may be required for candidate support, assessment and quality assurance. For information on normal open learning arrangements, please refer to the SQA guide *Assessment and Quality Assurance of Open and Distance Learning* (SQA, 2000).

Special needs

This Unit specification is intended to ensure that there are no artificial barriers to learning or assessment. Special needs of individual candidates should be taken into account when planning learning experiences, selecting assessment instruments or considering special alternative Outcomes for Units. For information on these, please refer to the SQA document *Guidance on Special Assessment Arrangements* (SQA, 2001).

General information for candidates

Unit title: Treasury Management

This Unit will introduce you to the role of the Treasury Management section within companies. These departments play an important part in the financial services industry whose players are, on the whole, involved in wholesale transfer of payments across international borders.

There are many risks attached to the transfer of large payments and as such the role played by the Treasury Management function is crucial.

In order to understand how this function operates it is necessary for you to understand where the function fits into the overall corporate structure, and to consider the various techniques that are available for their use.

Knowledge of this function will be useful if you intend to continue your studies at a higher level.

It is likely that you will be asked to complete an assessment based on a number of questions that relate to a given case study. You will receive a copy of the case study 7-10 days before the date of the assessment but you will not be given prior notice of the questions, nor will you be allowed to bring any material with you to the assessment.

You will need to complete all tasks to the required standard before achieving a pass in the Unit.