

Higher National Unit Specification

General information for centres

Unit title: Financing International Trade

Unit code: DE5T 35

Unit purpose: This Unit is designed to allow candidates to gain an understanding of the finance of international trade, foreign exchange and support services provided for exporters, importers and merchants by the UK's financial institutions. It prepares candidates for a career within the international divisions of High Street banks and within the merchant banking sector. It also provides a good foundation for those who will undertake professional examinations. It may be of interest to candidates who have, or who wish to have, an import or export background, or who simply have an interest in the topic.

On completion of the Unit candidates should be able to:

1. Apply techniques that guard against the possibility of exchange risk in export or import transactions.
2. Explain the main method of payment used by exporters and importers.
3. Explain the main financial services available from banks to assist exporters and importers.
4. Explain the main non-financial services available from banks to assist exporters and importers.

Credit value: 2 HN Credits at SCQF level 8: (16 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 group awards in Financial Services. It is recommended that it should be taught and assessed within the context of the particular group award 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 based on a case study relating to an import and/or export scenario. Assessment using the case study may take the form of restricted responses to questions, multiple-choice questions, or a combination of both.

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

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 **five** questions, two from Outcome 1 and one each from Outcomes 2,3 and 4. It may be acceptable to provide a choice of questions for the candidate to attempt from each Outcome.

If only multiple-choice questions are to be used then this should take the form of **50** questions, 20 from Outcome 1 and 10 each from Outcomes 2,3 and 4.

If a combination of restricted response questions and multiple-choice questions is used then this should consist of **25** multiple-choice questions, 10 from Outcome 1 and 5 each from Outcomes 1,2 and 3. Additionally candidates should complete a further **3** restricted response questions, 1 from Outcome 1 and a further 2 questions from areas of the remaining Outcomes.

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: Financing International Trade

Unit code: DE5T 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

Apply techniques that guard against the possibility of exchange risk in export or import transactions.

Knowledge and/or skills

- Operation of the foreign exchange (forex) markets
- Factors that influence spot markets
- Calculating exchange contracts
- Futures and forward exchange contracts
- Factors influencing forward markets
- Exchange rate regimes
- Bank operations in settlement of trade

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 based on a case study. 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.

Higher National Unit specification: statement of standards (cont)

Unit title: Financing International Trade

The sample may comprise of **two** of the knowledge and skills. Each new assessment should assess a different sample of knowledge and skills. It is suggested that at least one of the items sampled requires the candidate to complete calculations relating to exchange contracts.

Candidates must provide a satisfactory response to the theoretical question, and calculations should not contain more than **two** errors.

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 the operations of the foreign exchange (forex) market and its participants
- Explain the factors that influence the spot market in foreign exchange
- Calculate currency futures and forward exchange contracts
- Explain the differences between currency futures and forward exchange contracts
- Explain the factors that influence forex rate movements in the forward markets
- Explain the benefits and drawbacks of the various exchange rate regimes
- Describe **two** methods used by banks to effect international settlement

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 main method of payment used by exporters and importers.

Knowledge and/or skills

- Transport documentation
- Incoterms
- Methods of payment
- Applying methods to appropriate situations
- Documentary collections
- Documentary credits

Higher National Unit specification: statement of standards (cont)

Unit title: Financing International Trade

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 based on a case study. 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. Each new assessment should assess a different sample of knowledge and skills.

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:

- Describe the transport documentation used in international trade
- Explain the operation and use of Incoterms
- Distinguish between the various terms of payment used in international trade
- Identify, giving reasons, the most appropriate terms of payment in a given situation
- Explain the procedures involved in documentary collections
- Explain the procedures involved in documentary credits

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: Financing International Trade

Outcome 3

Explain the main financial services available from banks to assist exporters and importers.

Knowledge and/or skills

- Services provided for short term finance
- Applying services to given situations
- With and without recourse finance
- Services provided by banks and ECGD for medium and long term finance
- Forfeiting
- Hire purchase and leasing

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 based on a case study. 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. Each new assessment should assess a different sample of knowledge and skills.

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 features of services that provide short term finance to exporters
- Identify the most appropriate form of short term finance in a given situation
- Explain the difference between with recourse and without recourse finance
- Explain the role of banks and ECGD in providing medium or long term finance
- Explain the features and benefits of forfeiting
- Explain how hire purchase or leasing can benefit exporters

Higher National Unit specification: statement of standards (cont)

Unit title: Financing International Trade

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 4

Explain the main non-financial services available from banks to assist exporters and importers.

Knowledge and/or skills:

- Travel facilities
- Non financial services for exporters
- International licensing and franchising
- Bonds used in international trade
- Stand-by letters of credit
- Procedures for issuing bonds

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 based on a case study. 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. Each new assessment should assess a different sample of knowledge and skills.

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:

Higher National Unit specification: statement of standards (cont)

Unit title: Financing International Trade

- Explain the advantages and disadvantages of two of the various travel facilities available to exporters
- Describe two non financial services available to new exporters from banks and other sources
- Explain the operation of international licensing or franchising
- Explain the types of, or roles of, bonds in international trade
- Explain the operation of stand-by letters of credit
- Describe the procedure for issuing bonds

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.

Administrative Information

Unit code:	DE5T 35
Unit title:	Financing International Trade
Superclass category:	AL
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Higher National Unit specification: support notes

Unit title: Financing International Trade

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

The Unit is primarily intended to prepare candidates for further study at professional level, and or undergraduate level. It provides the necessary knowledge and skills required by employees working in the international services divisions of banks.

Outcome 1 looks at the operations of the foreign exchange markets and the implications for exporters and importers. In order to apply these principles it will be necessary for the candidates to understand the nature of exchange rates and the different regimes used in different world economies. It will also be necessary for candidates to calculate the various exchange rates provided by forex markets.

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

It is expected that centres will cover the following topics:

- Difference between international and domestic trade
- Reasons for trade
- Absolute advantage and comparative advantage
- Tariffs
- World Trade Organisation
- Single European Market
- Balance of payments
- Foreign Currency Exchange Markets:
 - Spot
 - Forward
 - Arbitrage
 - Premium and discount
 - Interest rates and inflation
 - Interest rate parity
 - Currency futures
 - Users of futures markets
 - Speculation
 - Hedging
 - Variation margin payments

Higher National Unit specification: support notes (cont)

Unit title: Financing International Trade

- Exchange Rate Regimes
 - Clean floating
 - Purchasing power parity
 - Adjustable peg
 - Managed floating
 - EMS, ERM and the Euro
- Spot rates and exchange risk
- Forward exchange rate and forward contracts
- Close outs
- Extensions
- Foreign currency options
 - Terms used
 - OTC
 - Foreign currency invoicing
- Foreign currency exposure: transaction; translation; economic
- Methods of controlling exposure
- Corporate hedging philosophy
- Internal techniques to hedge transaction exposure
 - Matching
 - Multilateral netting
 - Leads and lags
 - Composite currencies
- Translation exposure
 - Use of foreign currency borrowing
 - Matching 50/50
 - Currency swaps
- Economic exposure: types
- Methods of settlement through banks
 - Nostro and vostro accounts
 - Bookkeeping involved in transfers
 - SWIFT, TT, MT, bank draft

Outcome 2 examines the methods used to settle international trade and also considers the documentation used by importers and exporters and their agents.

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

It is expected that centres will cover the following topics:

- Bills of lading
 - Functions
 - Types; waybills; commercial invoices
 - Insurance documentation
- Incoterms: obligations on importer and/or exporter and cost implications

Higher National Unit specification: support notes (cont)

Unit title: Financing International Trade

- Open accounts terms
 - Risks to exporters –
 - Buyer risk
 - Country risk
 - Transit risk
 - Credit insurance
 - ECGD supplier insurer policy
 - Other facilities
- Documentary collections
 - Bills of exchange; sight draft; term draft
 - Operation of documentary collections
 - Uniform rules for collections
 - Position of remitting bank
 - Risks to exporters
- Shipping documents
- Documentary credits
 - Definition
 - Parties
 - Operation
 - Types
 - Uniform customs and practice for documentary credits
 - Advice and problems of use
- Assistance for importers
 - Inward documentary collections
 - Rules for handling
 - Bills of exchange acceptance and dishonour
 - Protest
 - Avalisation
 - Bank indemnities
 - Documentary credits
 - Risks for banks
 - Methods of reducing risk
 - Details contained in Documentary Credit applications
 - Letters of credit
 - Back to back credits

Outcome 3 examines the main sources of short, medium and long term finance for exporters and the issues relating to trade settlement that apply to importers.

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

Higher National Unit specification: support notes (cont)

Unit title: Financing International Trade

It is expected that centres will cover the following topics:

- Short-term export finance
 - Post and pre shipment
 - With and without recourse
 - Loans and overdrafts
 - Credit insurance policies used as security
 - Negotiation of documentary collections
 - Bill advances
 - Acceptance credits
 - Negotiation and discounting of bills under documentary credits
 - Red clause documentary credits
 - Export factoring
 - Invoice discounting
- Medium and long term finance
 - Supplier credit
 - Buyer credit
 - ECGD lines of credit
 - Forfeiting
 - Leasing and hire purchase

Outcome 4 examines the main non-financial services provided by banks for importer and exporters.

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

It is expected the centres will cover the following topics:

- Travel facilities
 - Notes
 - Travellers cheques
 - Credit cards
 - Debit and charge cards
 - Open credit
 - Company credit cards
 - Emergency cash
- Bank assistance for new exporters
 - Overseas trade services (OTS)
 - Chambers of commerce
 - International licensing
 - Franchising

Higher National Unit specification: support notes (cont)

Unit title: Financing International Trade

- Bonds
 - On-demand bonds
 - Conditional bonds
 - Procedures for issue
 - Problems for exporters
 - Countertrade

Outcome 4 examines the main non-financial services provided by banks for importer and exporters.

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

It is expected the centres will cover the following topics:

- Travel facilities
 - Notes
 - Travellers cheques
 - Credit cards
 - Debit and charge cards
 - Open credit
 - Company credit cards
 - Emergency cash
- Bank assistance for new exporters
 - Overseas trade services (OTS)
 - Chambers of commerce
 - International licensing
 - Franchising
- Bonds
 - On-demand bonds
 - Conditional bonds
 - Procedures for issue
 - Problems for exporters

Guidance on the delivery and assessment of this Unit

The Unit is primarily intended to prepare candidates for further study at professional level, and or undergraduate level. It provides the necessary knowledge and skills required by employees working in the international services divisions of banks and should be delivered within this context.

Higher National Unit specification: support notes (cont)

Unit title: Financing International Trade

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: Financing International Trade

This Unit is designed to introduce to the procedures and documents used in international trade. Banks, in particular, play an important role in ensuring the smooth handling of international trade transactions and the Unit considers the role of the bank in providing both exporter and importers with facilities that make trade easier.

The Unit will provide you with the necessary knowledge to allow you to work within the international and foreign departments of banks.

You will also be required to consider the use of foreign exchange contracts in eliminating much of the risk attached to overseas trade.

You will be asked to complete a number of tasks covering:

- Payment protection
- Trade methods and documentation
- Banking and non-banking services

There is likely to be one unseen assessment for this Unit. This assessment is likely to consist of a written report or a range of questions based on a given case study. You will be provided with a copy of the case study 7-10 days before the assessment opportunity.

It is likely that the assessment will take the average candidate not more than two hours to complete.

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