Next Generation Higher National Unit Specification

Financial Services: Risk Management (SCQF level 8)

Unit code: J9E3 48

SCQF level: 8 (16 SCQF credit points)

This unit is available in a restricted delivery model from academic session 2025

This unit specification provides detailed information about the unit to ensure consistent and transparent assessment year on year. It is for lecturers and assessors, and contains all the mandatory information you need to deliver and assess the unit.

Published: October 2025 (version 1.0)

Contents

Unit purpose

This unit introduces and develops learners' knowledge of the concept and existence of risk in the financial services sector, and helps them to identify and take actions to mitigate or prevent risk. It prepares learners for careers in investment, retail and digital banking, risk analysis and a range of financial services, which are all affected by decisions on risk.

Entry to the unit is at your centre's discretion. Before they start, we recommend learners have good written communication and numerical skills. They could show this by having:

- Core Skill Communication at SCQF level 5, National 5 English, or equivalent
- Core Skill Numeracy at SCQF level 5 or a relevant National Certificate unit

Learners study this unit as part of Higher National Diploma (HND) Accounting. They can also study it on a stand-alone basis.

Unit outcomes

Learners who complete this unit can:

1. explain and calculate financial risk
2. explain, calculate, and analyse the relationship between financial risk and return
3. explain and calculate the mitigation and management of financial risk
4. explain and evaluate investor risk profiling

Evidence requirements

Learners need a minimum of 70% for each outcome to achieve the unit.

For all outcomes, each knowledge and skill is matched by a corresponding evidence requirement.

Assess all outcomes:

- using sampling
- under unsupervised, open-book conditions

Learners can present evidence as part of a written report or in response to a specific question or questions.

Learners must:

- show they can provide an accurate and clear explanation of the theoretical aspects of the outcome
- reference all sources using a recognised referencing convention

Outcome 1

The sample must:

- include **three** of the knowledge and skills
- use a different sample of knowledge and skills each time you assess the outcome
- include at least **one** task that requires learners to complete calculations

In the context of financial services, where an item is sampled, learners must show they can:

- explain portfolio risk
- calculate and explain the impact of inflation risk on an asset
- calculate and explain the impact of exchange risk on an asset
- explain the impact of contagion risk
- explain liquidity risk using relevant calculations
- explain capital risk
- explain legal changes that pose risks that have an impact on firms

Calculations must be accurate within a tolerance of one arithmetic or computational error. One error of principle is permitted.

Outcome 2

The sample must:

- include **two** of the knowledge and skills
- use a different sample of knowledge and skills each time the outcome is assessed
- include at least **one** task that requires learners to complete calculations

Where an item is sampled, learners must show they can:

- explain the relationship between the levels of risk undertaken and the levels of return expected
- calculate and comparatively analyse the risk and returns for investments, using historical data
- calculate and comparatively analyse the risk and returns for investments, using a probability distribution
- explain beta, and calculate and comparatively analyse betas for financial assets

Calculations must be accurate within a tolerance of one arithmetic or computational error. One error of principle is permitted.

Outcome 3

The sample must:

- include **two** of the knowledge and skills
- use a different sample of knowledge and skills each time you assess the outcome
- include at least **one** task that requires learners to complete calculations

Where an item is sampled, learners must show they can:

- explain the theory of asset diversification
- explain and calculate the expected risk and return of a portfolio
- explain and calculate portfolio asset covariance and correlation, and select asset combinations offering diversification opportunities
- explain the theory of the efficient frontier
- perform risk modelling and analyse the outputs

Calculations must be accurate within a tolerance of one arithmetic or computational error. One error of principle is permitted.

Outcome 4

The sample must:

- include **two** of the knowledge and skills
- use a different sample of knowledge and skills each time you assess the outcome

Where an item is sampled, learners must show they can:

- explain the regulatory requirements relating to the risk profiling of investors
- explain the process of investor risk profiling
- apply the key factors in the investor risk-profiling process and evaluate the outputs of a profile
- identify and explain limitations of investor risk profiling

Knowledge and skills

Knowledge	Skills
Outcome 1 In the context of financial services, learners should understand: • portfolio risk • inflation risk • exchange rate risk • contagion risk • liquidity risk • capital risk • legal and regulatory changes	**Outcome 1** In the context of financial services, learners can: • explain portfolio risk • calculate and explain the impact of inflation risk on an asset • calculate and explain the impact of exchange risk on an asset • explain the impact of contagion risk • explain liquidity risk using relevant calculations • explain capital risk • explain legal changes that pose risks that have an impact on firms
Outcome 2 Learners should understand: • theory of risk and return • risk and returns for single investments, using historical data • risk and returns for single investments, using a probability distribution • beta for financial assets	**Outcome 2** Learners can: • explain the relationship between levels of risk undertaken and the levels of return expected • calculate and comparatively analyse the risk and returns for investments, using historical data • calculate and comparatively analyse the risk and returns for investments, using a probability distribution • explain beta, and calculate and comparatively analyse betas for financial assets

Knowledge	Skills
Outcome 3 Learners should understand: • theory of asset diversification • portfolio risk and expected return from historical data • asset diversification from historical data • theory of the efficient frontier • risk modelling	**Outcome 3** Learners can: • explain the theory of asset diversification • explain and calculate the expected risk and return of a portfolio • explain and calculate portfolio asset covariance and correlation, and select asset combinations that offer diversification opportunities • explain the theory of the efficient frontier • perform risk modelling and analyse the outputs
Outcome 4 Learners should understand: • UK financial services client suitability regulations • process of investor risk profiling • investor risk-profiling factors • limitations of investor risk profiling	**Outcome 4** Learners can: • explain the regulatory requirements relating to the risk profiling of investors • explain the process of investor risk profiling • apply the key factors in the investor risk-profiling process and evaluate the outputs of a profile • identify and explain limitations of investor risk profiling

Meta-skills

You must give learners opportunities to develop their meta-skills throughout this unit. We have suggested how to incorporate the most relevant ones into the unit content, but you may find other opportunities.

Self-management

This includes focusing, integrity, adapting and initiative. The most relevant are:

- focusing:
  - researching and presenting information on a given brief
  - filtering and sorting the information needed to prepare information and reports
- integrity:
  - providing advice based on legal and ethical requirements (for example Financial Conduct Authority (FCA) suitability regulations)

Social intelligence

This includes communicating, feeling, collaborating and leading. The most relevant are:

- communicating:
  - interpreting and explaining risk scenarios, financial metrics, and investor profiles
- leading:
  - taking ownership of advice by making informed recommendations

Innovation

This includes curiosity, creativity, sense-making and critical thinking. The most relevant are:

- sense-making:
  - identifying, calculating, and interpreting financial risk
  - using data and logic to inform decisions
  - using financial theory and risk metrics to solve investment dilemmas
- critical thinking:
  - evaluating investment scenarios and risk-profiling outputs
  - making data-driven judgments and evaluating limitations

Literacies

This unit provides opportunities to develop the following literacies.

Numeracy

Learners develop numeracy skills by:

- carrying out real-world financial calculations, data interpretation, and analytical decision-making
- calculating and interpreting statistical and risk information

Communication

Learners develop communication skills by:

- reading, interpreting and explaining financial calculations
- structuring their writing logically, using accurate terminology, and presenting conclusions clearly and persuasively

Digital

Learners develop digital skills and computer literacy by:

- using spreadsheet software to:
    - calculate standard deviation, beta, returns, covariance, and correlation
    - create correlation matrices and build the efficient frontier using scatterplots
- using different digital technologies for their assessments, for example:
    - virtual learning environments such as Moodle and Microsoft Teams
    - e-assessment platforms
    - e-portfolios for submission and feedback

Learning for Sustainability

Throughout this unit, you should encourage learners to develop their skills, knowledge and understanding of sustainability.

This includes:

- a general understanding of social, economic and environmental sustainability
- a general understanding of the United Nations Sustainable Development Goals (SDGs)
- a deeper understanding of subject-specific sustainability
- the confidence to apply the skills, knowledge, understanding and values they develop in the next stage of their life

Delivery of unit

This is an optional unit in HND Accounting. You can deliver it as a stand-alone unit, or partially integrate it with elements of the Business Performance and Managing Risk unit.

The notional time for delivery and assessment is 80 hours. The amount of time you allocate to each outcome is at your discretion.

Additional guidance

The guidance in this section is not mandatory.

Content and context for this unit

You should deliver this unit in the context of financial services.

The following guidance is based on regulations in place at time of writing. Please ensure learners use current information in their learning, and that assessment content and checklists reflect the current situation.

Learners should become familiar with, and use, relevant terminology.

Outcome 1 content

Outcome 1 introduces and examines what various risk types look like, and the impact they have. As well as examining these risk types, you should emphasise the importance of quantifying the impact of these risks, where possible.

We recommend you cover:

- an introduction to financial risk and its management
- real and nominal inflation
- elements of portfolio risk — asset types in the portfolio, the amount of money invested and level of diversification
- how to calculate inflation impact on dividends, coupon payments, and/or asset sale proceeds
- floating exchange rates — appreciation/depreciation, impact of appreciation/depreciation on repatriation of dividends, coupon payments, and/or asset sale proceeds
- the history of financial crises and their impact on financial risk management
- measures of liquidity, such as acid test ratio, liquidity test, and cash ratio, used to show changes historically (two calculations — before and after)

- factors that affect the level of capital risk across shares, bonds and other relevant assets found within financial services
- the historical impact on perceived financial risk levels from political changes in the UK and/or other relevant countries
- recent, current and potential regulatory changes that may cause the level of financial risk investors face to vary

Outcome 2 content

Outcome 2 introduces and examines the relationship between financial risk and return. You should explain measures of both metrics and how to calculate them within basic probability and using historical scenarios. Then you should present further measures of risk and how to calculate them to show asset volatility in comparison to an overall market.

We recommend you cover:

- investor assumptions — risk minimisers, return maximisers, return maximisation for a given level of financial risk
- locating and preparing data to be used to calculate returns and financial risk
- how to generate data to use to calculate financial risk and returns
- normal distribution and Student's t-distribution assumptions
- calculating % stock returns using historical data and using the arithmetical mean
- calculating % returns for stocks using a basic probability distribution
- calculating and analysing the output of standard deviation, variance and co-efficient of variation as measure of risk for stock data using historical data
- calculating and analysing the output of standard deviation, variance and co-efficient of variation as measure of risk for stock data using a probability distribution
- analysing the returns of stock data
- beta — measure of volatility, using covariance
- performing covariance analysis to then interpret the output in the context of beta, using market return and share price data

Outcome 3 content

Outcome 3 introduces and examines financial risk management in a portfolio context, borrowing from portfolio theory, with emphasis largely on diversification. Learners perform calculations to measure the extent of diversification among assets alongside creating and using a model to reconcile risk tolerances with returns.

We recommend you cover:

- diversification — across asset classes, asset location, correlation, risk-tolerance review and hedging
- expected return of a portfolio, using historical data to calculate percent returns, how to weight these, and subsequently calculate the average return
- covariance of multiple assets — portfolio weights and associated calculations, using historical data to understand the extent of asset diversification in a portfolio
- how to create a matrix of portfolio asset correlation coefficients and covariances to understand the extent of asset diversification. Learners should make recommendations to investors about which assets are likely to match their risk appetites (risk min/max return or max return)
- how to use data analysis software and/or formula to create a matrix for multiple stock correlation coefficients, covariances and interpretating outputs
- how to use the theory of the efficient frontier — explain the theory and show how the model can be used to reconcile risk tolerances and expected returns of assets within a given context
- how to create efficient frontier from a given data set (historical risk and returns (standard deviation) data) and using model outputs to reconcile with investor preferences (scatterplots showing relationships between risk and return)

Outcome 4 content

Outcome 4 introduces and examines the process of investor risk profiling (IRP) — part of the suitability criteria of the Financial Conduct Authority (FCA).

Currently (2025), the FCA is the main regulator monitoring client suitability criteria. Please check that the FCA is still the main regulator for client suitability and keep up to date with any changes to the criteria and risk-profiling process.

We recommend you cover:

- regulatory conduct of business rules relating to investor suitability
- the five stages of the IRP process:
    - defining goals
    - collecting data from client for risk profile
    - scoring data
    - allocating assets based on risk score
    - implementing a plan
- goal setting in the IRP process — single or multiple investment goals
- risk profiling — data collection techniques used to collect this information, including questionnaires and/or interviews
- data collected:
    - risk capacity — methods used by adviser in assessing an investor's ability to withstand losses and factors impacting risk capacity
    - risk aversion — methods used by adviser to gather personal and other characteristics that impact client risk aversion
    - risk tolerance — measuring the client's willingness to take risks and factors that lead to how risk tolerance varies across clients
    - client financial knowledge — identifying and measuring a client's education, training and investment experience
    - macroeconomic risk — the influence of economic growth, inflation, how asset market performance influences advisers' recommendations to clients
- the matching and purchase of assets commensurate with client tolerances
- limitations of the IRP process:
    - ineffectiveness of 'one-size fits all' approach to gathering data about risk tolerances

- adviser influence on client in the process
- weighting questions equally when some are more important than others in the process

Approaches to delivery

As required, you should make learners aware of the latest developments in regulations and risk management in UK financial services. Learners need to apply current legislation in their assessment answers.

We recommend you teach the unit in the order that the knowledge and/or skills are specified.

You should focus on how learners apply their knowledge and skills. They can do this by reviewing risk-based scenarios and applying knowledge, performing relevant calculations, analysing calculation outputs and making recommendations.

Approaches to assessment

You can use different types of assessment. The following are suggestions only. There may be other methods that are more suitable for your learners.

You could use two assessments. The first assessment could cover outcome 1 and the second assessment could cover outcomes 2, 3 and 4.

You could use methods that require learners to answer questions based on case studies that relate to risk-based scenarios and are supported by relevant stimulus material.

Experiencing a range of assessment methods helps learners to develop different skills that are transferable to work or further and higher education.

Equality and inclusion

This unit is designed to be as fair and as accessible as possible with no unnecessary barriers to learning or assessment.

You must consider the needs of individual learners when planning learning experiences, selecting assessment methods or considering alternative evidence.

Guidance on assessment arrangements for disabled learners and those with additional support needs is available on the [assessment arrangements web page].

Information for learners

Financial Services: Risk Management (SCQF level 8)

This information explains:

- what the unit is about
- what you should know or be able to do before you start
- what you need to do during the unit
- opportunities for further learning and employment

Unit information

This unit introduces you to knowledge and skills associated with risk within the financial services sector. You learn about some of the major risk types that exist within the financial services environment — in particular, those that have an impact on the area of investment.

Given that risk exists and has an impact on the expected return from investments, you learn about the relationship between risk and returns, as well as quantifying levels of risk and return for investment opportunities.

When facing levels of risk, investors adopt strategies to lessen its impact. As such, you learn about techniques to help manage and mitigate risk. This process involves assessing the relative risk and returns between assets and selecting assets for investor preferences.

As part of risk management, before offering investment products, firms are legally required to perform an analysis of investor knowledge, risk preferences, and risk tolerances alongside a variety of other legally required activities. You learn about this process.

Entry to the unit is at your centre's discretion. Before you start, it would be useful for you have good written communication and numerical skills.

You also develop the numeracy and analytical skills needed when working in risk-based scenario and managing risks. You make calculations on given risk and return data, and apply the outputs of these calculations to recommend suitable financial products.

Once you complete the unit, you can:

- explain and calculate financial risk (outcome 1)
- explain, calculate and analyse the relationship between financial risk and return (outcome 2)
- explain and calculate the mitigation and management of financial risk (outcome 3)
- explain and evaluate investor risk profiling (outcome 4)

In outcome 1, you learn about the key financial risk types that have the potential to have an impact on the financial services sector.

In outcome 2, you learn about the relationship between financial risk and return. This relationship of risk and return is central to all organisations operating within financial services. This outcome introduces you to the topic by explaining this relationship, with scope for performing calculations using software packages of commonly used metrics within the area of investment. You also perform an analysis of financial risk and return outputs from calculations.

In outcome 3, you apply knowledge and build on skills and knowledge developed in outcome 2. You learn about processes that help manage and mitigate financial risk, specifically within a portfolio of assets. Using software packages, you learn to quantify (partially through risk modelling) and analyse commonly used metrics to assess the level of returns for associated levels of risk.

In outcome 4, you learn about the process of investor risk profiling (IRP). IRP is a legal requirement for firms that offer financial products to consumers. You develop an understanding of the process — as well as locating up-to-date sources of the legal requirements of IRP, how it is performed and the limitations of IRP.

You are assessed under unsupervised, open-book conditions.

The unit prepares you for a career in investment, retail and digital banking, risk analysis and a range of financial services, which are all affected by decisions on risk.

Meta-skills

Throughout this unit, you develop meta-skills that are useful for the financial services sector.

Meta-skills are transferable behaviours and abilities that help you adapt and succeed in life, study and work. There are three categories of meta-skills: self-management, social intelligence and innovation.

Self-management

- focusing:
  - researching and presenting information on a given brief
  - filtering and sorting the information needed to prepare information and reports
- integrity:
  - providing advice based on legal and ethical requirements

Social intelligence

- communicating:
  - interpreting and explaining risk scenarios, financial metrics and investor profiles
- leading:
  - taking ownership of advice by making informed recommendations

Innovation

- sense-making:
  - identifying, calculating, and interpreting financial risk
  - using data and logic to inform decisions
  - using financial theory and risk metrics to solve investment dilemmas
- critical thinking:
  - evaluating investment scenarios and risk-profiling outputs
  - making data-driven judgments and evaluating limitations

Learning for Sustainability

Throughout this unit, you develop skills, knowledge and understanding of sustainability.

You learn about social, economic and environmental sustainability principles and how they relate to the financial services sector. You also develop an understanding of the United Nations Sustainable Development Goals.

Administrative information

Published: October 2025 (version 1.0)

Superclass: AL

History of changes

Version	Description of change	Date

Please check SQA's website to ensure you are using the most up-to-date version of this unit.