

ENGLISH
FOR INTERNATIONAL
BANKING AND FINANCE
GUIDE FOR TEACHERS

Jim Corbett

CAMBRIDGE
UNIVERSITY PRESS

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To the teacher

English for International Banking and Finance is for people who need English for their day-to-day work in international banking, as well as for students of international banking and professional people whose work brings them into contact with international banking and finance.

The book is organized into nine thematically linked units which are self-contained, so that they can be used in any order or grouped together to form modules according to individual needs.

The units can be used in class, in one-to-one teaching and for self-study. They are divided into four sections. The first three sections in a unit are based on listening passages. The fourth section in a unit mainly contains work based on reading texts. Each unit provides between three and five hours work.

Each of the nine units of this *Guide for teachers* provides you with these things:

- an introductory *Briefing* section which provides background information about the banking business content of a unit
- ideas about how to teach the individual components of the units
- a tapescript of what is on the *Cassette*
- an answer key

Please note that you have permission to photocopy for your learners the *Briefing* sections at the beginning of each unit and the crossword puzzle solutions in Units 2, 4, 6 and 8.

We welcome comments and reactions from teachers who use the materials. Please send them to Jim Corbett, c/o the ELT Group, Cambridge University Press, The Edinburgh Building, Shaftesbury Road, Cambridge, CB2 1RU, UK.

Contents

Unit 1 Bank organization	1
Unit 2 Bank performance	9
Unit 3 Foreign exchange	18
Unit 4 Meetings	28
Unit 5 A Presentation	37
Unit 6 Trade finance	44
Unit 7 Financial news	53
Unit 8 Projects	62
Unit 9 Trends	71

Unit 1 Bank organization

Briefing

The way in which a bank is organized and operates is determined by its objectives and by the type of economy in which it conducts its business. A bank may not necessarily be in business to make a profit. **Central banks**, for example, provide a country with a number of services, while **development banks** exist to increase the economic growth of a country and raise the living standard of its population. On the other hand, the aim of **commercial banks** is to earn profits. They therefore provide and develop services that can be sold at a price that will yield a profit.

A commercial bank which provides the same range of services year after year is less likely to be successful than one which assesses changes in the demand for its products and which tries to match products to its customers' needs. New services are constantly being introduced and developed by commercial banks, and the full-service philosophy of many banks means that they are akin to financial supermarkets, offering a wide variety of services. However, not every bank may want to offer every kind of financial service.

Many banks offer a combination of **wholesale** and **retail** banking. The former provides large-scale services to companies, government agencies and other banks. The latter mainly provides smaller-scale services to the general public. Both types of banking, however, have three essential functions, which are:

- deposits
- payments
- credits

These three functions are the basis of the services offered by banks. They make it possible for banks to generate profits and to achieve their operating aims.

Several factors have combined to make banking an international business. These include the growth of multinational companies and of international capital markets, the increased competition between the banks themselves, and important improvements in communications and transportation. The major banks of the world have established extensive international operations by acquiring banks in other countries, by extending their own branch network abroad and by establishing correspondent relationships with foreign banks so as to develop profitable joint operations. The operations of these major commercial banks are dynamic and rapidly changing, and their organization is of a global nature.

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Section A **A1**

Don't allow your learners to spend too much time on this warm-up task. Get individuals to report back orally to the class on the responsibilities of the three

people without reference to the text, e.g. *Bernard Rogers is currently ... but will soon be ...*. This will allow you to check pronunciation and comprehension.

Answers

1

Bernard Rogers

Division: corporate banking and international banking.

Lucy John

Division: finance operations.

Responsibilities: foreign exchange, short-term money market operations, accounting.

David Lacey

Division: retail banking.

Responsibilities: branch network.

2 1C; 2I; 3G; 4B; 5E; 6F

A2

Point out to your learners that this first listening is for general comprehension and that they will have the opportunity to hear the conversation again.

Tapescript

PRESENTER: Ed Walker describes the structure of his bank to Françoise Caie.

ED: OK, there's an organization chart here, Françoise, in the back of the annual report, that we can run through, just to make things a little clearer.

FRANÇOISE: Oh, good.

ED: We were reorganized earlier this year, so the organization is still fairly new. Basically, as you can see, we're split into six line divisions. The first of these, the Banking Division, consists of three geographic groups: Group One The Americas, Group Two Europe, and Group Three Africa, Asia and the Middle East. All these groups offer a full range of international banking services.

Then there's the Private Banking Division which serves consumers in the domestic and international markets.

The Treasurer's Division has a wide spread of operations which includes investment portfolio management, commercial paper, government and municipal bonds, foreign exchange, bullion, and public finance.

FRANÇOISE: So there are three operative divisions.

ED: That's right, and these three operative divisions are backed up by another three servicing divisions. Firstly, there's the Administrative Division which covers administrative services as well as personnel, premises and economic analysis. The Financial and Information Systems Division includes the Comptroller's Department, the Corporate Tax Department, and the Systems and Data Processing Department.

And then finally, the Corporate Planning Division includes strategic planning, and credit policy and administration.

FRANÇOISE: Yes, I see.

ED: It gets much more complicated than that if we go into detail, but I'll leave the annual report with you, in case you ever need it for reference.

FRANÇOISE: Right. Thank you very much.

PRESENTER: That was Ed describing the structure of a leading American bank.

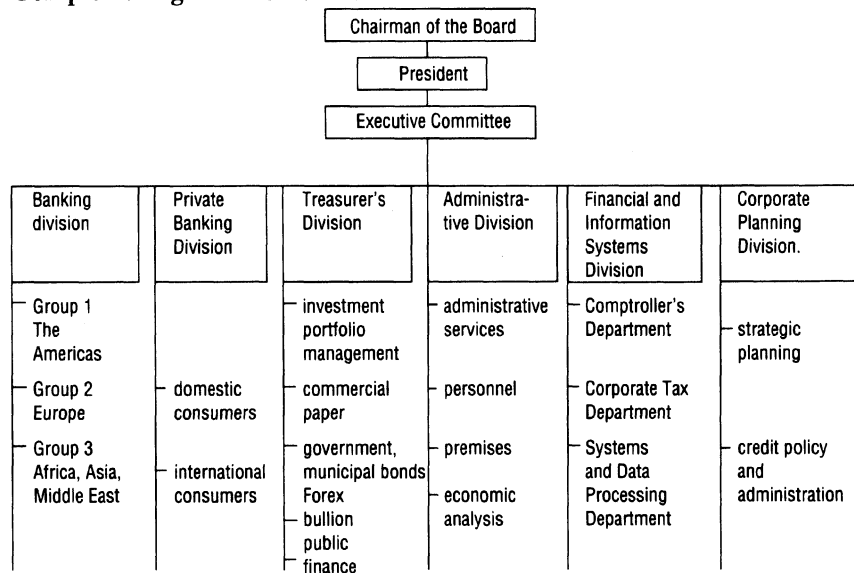
Answers

1a); 2a)

A3

Focus attention on the organization chart and play the cassette again. It is essential that you stop the cassette every so often to allow time for the learners to write down the information. You may need to play the cassette a third time or you may wish to break up the task a little by eliciting answers for each division as you go along rather than all at the end.

Completed organization chart



A4

The purpose of this task is to check the important vocabulary from the Listening. You may wish to set it as homework or do it at your next meeting to revise the vocabulary.

Answers

1 annual report; 2 reorganized; 3 line divisions; 4 consumers; 5 domestic; 6 investment portfolio management; 7 commercial paper; 8 municipal bonds; 9 bullion; 10 personnel; 11 premises; 12 comptroller's department; 13 strategic planning; 14 credit policy

Section B B1

As with A2, the purpose of the first listening is general comprehension.

Tapescript

- PRESENTER:** Clive Regis is interviewed about his bank's organization.
- INTERVIEWER:** First of all, could you tell me how you're organized?
- CLIVE:** Yes, certainly. Just to give you the background, we were established as a merchant bank as long ago as 1869. We operated independently as one of the major merchant banks in the City until 1976, when Metropolitan and Provincial acquired a one third interest in us, and as of last year we are now a wholly-owned subsidiary of that bank.
- INTERVIEWER:** Oh, really? I didn't realize that.
- CLIVE:** Mmm. One of the consequences of our acquisition was that we sold off our non-banking related activities, though of course we still cover a full range of international banking services. Now in terms of management structure, we have an Administration Division which looks after all administrative matters. These include planning, group financial control, accounting and audit, computer services, legal services, personnel, premises and so forth.
- INTERVIEWER:** Ah, yes. That's cost centre services then?
- CLIVE:** That's cost centre services, right. Next we have the Banking Division and they deal with loans, syndicated loans, project finance, overdrafts, documentary credits and correspondent banking.
- INTERVIEWER:** I see.
- CLIVE:** We're very active in the markets and so therefore we have a Dealing Division. They cover foreign exchange, currency options, money market transactions, bonds, floating rate notes, Eurodollar CDs, ...
- INTERVIEWER:** CDs?
- CLIVE:** Certificates of Deposit.
- INTERVIEWER:** Oh, I see. Yes.
- CLIVE:** CDs, financial futures and bullion. Then there's our Corporate Finance Division which has expanded quite rapidly over the last couple of years. They provide advice to a large number of UK and international companies. The activities of the Corporate Finance Division include mergers, takeovers, acquisitions and divestments, as well as stock market and USM flotations in London, and of course capital raising.
- INTERVIEWER:** Mmm, I see.
- CLIVE:** We also have an Investment Management Division which provides services to companies: pension funds, investment trusts, unit trusts and offshore funds. And finally there's a Leasing Division which organizes leasing packages for lessors and lessees. Well, that's who we are, and what we do. I think that sums it up.
- INTERVIEWER:** Ah, yes indeed. Now if we could move on to the ...
- PRESENTER:** That was Clive describing the structure of a merchant bank in London.

Answer

Clive Regis gives a brief history of the bank, and then talks about recent changes and the range of services provided.

B2

As with A3, it is essential that you stop the cassette at frequent intervals to allow your learners to write in the information.

Filled in boxes

Administration Division Planning Group financial control Accounting and Audit Computer services Legal services Personnel Premises	Banking Division Loans, syndicated loans Project finance Overdrafts Documentary credits Correspondent banking	Dealing Division Foreign exchange Currency options Money market transactions Bonds Floating rate notes Eurodollar CDs Financial futures Bullion	Corporate Finance Division Mergers Takeovers Acquisitions Divestments Stock market and USM flotations Capital raising	Investment Management Division Companies Pension funds Investment trusts Unit trusts Offshore funds	Leasing Division Packages for lessors and lessees
---	---	--	--	---	---

B3

See instructions for A4.

Answers

1 J; 2 G; 3 L; 4 S; 5 B; 6 C; 7 N; 8 H; 9 I; 10 D; 11 Q; 12 R; 13 P; 14 F; 15 O; 16 A; 17 T; 18 M; 19 K; 20 E

B4

Allow the learners a short period of time to look through the exercise, and then to ask any questions that they might have. Next, allow two or three minutes for the learners to make their individual plans. When they have done so, divide the group into pairs, to compare their answers and to justify any differences that their plans may contain. Finally, you may wish to see if there is any consensus of opinion among the class on a plan which links the functional areas in the best way. There is obviously no one correct solution to this task.

Section C C1

Check that the learners understand the meaning of the services listed before carrying out this warm-up task.

Answers

These activities are traditionally associated with savings banks:

personal loans, safe-deposit services, deposit accounts, payment of standing orders and cheque paying services.

C2

You may want the learners to listen to Kai's presentation first without completing the chart.

Tapescript

PRESENTER: Kai Larsen describes the organization of a Scandinavian savings bank.

KAI: In understanding how we're organized, it's perhaps first necessary to understand just what we are, and that is a savings bank. This has some important implications as to why we're organized the way we are. As the Capital Savings Bank, founded in 1878, we were the oldest and largest savings bank in the country. In 1980 we merged with the two largest regional savings banks and effectively this now gives us a nationwide network of branches to serve the private customer.

Head Office of course is here, that's in the central region, and there are two other regional offices. There's a Board of Directors, which is elected by the Board of Trustees of the bank, and a Managing Director, who has two Deputy Managing Directors who are responsible to him.

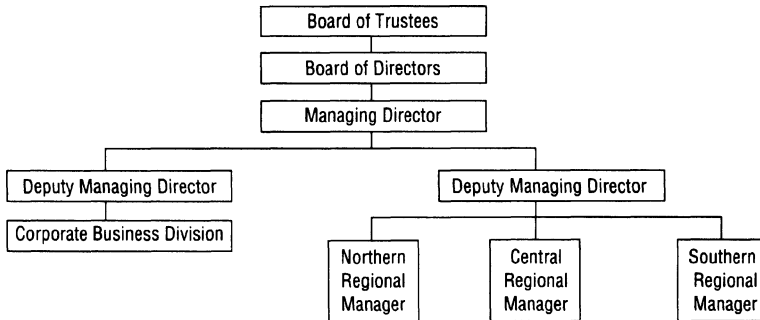
The one Deputy Managing Director is responsible for the branch network of offices, and reporting to him are the three Regional Managers, for the northern, central and southern regions.

The other Deputy Managing Director is responsible for the Corporate Business Division, and the formation of this division, really, was one of the main objectives of the merger: to pool our resources and to gain access to the lucrative markets dominated by the commercial banks.

And well, I think we've succeeded. We've still got a long way to go, of course, but we've turned from a savings bank which, prior to 1970, couldn't accept deposits in excess of the equivalent of ten thousand dollars, because of the regulations, into a commercially competitive bank which last year, for instance, granted an international debenture loan of forty-five million dollars and which had a loan portfolio fifty per cent of which, in terms of volume, related to corporate customers.

And we've done this virtually from scratch, building up our client list of small and medium-sized companies, establishing and expanding worldwide correspondent banking relationships, and, of course, making major investments in terms of personnel and technology. In our case, the new organization structure was very necessary for us to be able to broaden the scope of our activities.

PRESENTER: Kai, there, telling us about the organizational structure of a Scandinavian savings bank.

Completed organization chart**C3**

The purpose of this activity is to check the understanding of the important vocabulary – words and phrases – in the Listening.

Answers

1 savings bank; 2 founded; 3 merged; 4 nationwide network of branches; 5 Trustees; 6 lucrative markets; 7 commercial banks; 8 prior to; 9 in excess of; 10 debenture loan; 11 loan portfolio; 12 correspondent banking relationships; 13 personnel; 14 broaden the scope of our activities

C4

You may want to ask your learners to prepare their presentations as homework rather than in class. If learners work for the same bank, ask each person to make the presentation to a partner. This will avoid consecutive presentations of a similar nature. If you do this, circulate amongst the pairs, monitoring performance and giving any necessary feedback.

Section D D1

Allow approximately five minutes for the learners to read the text.

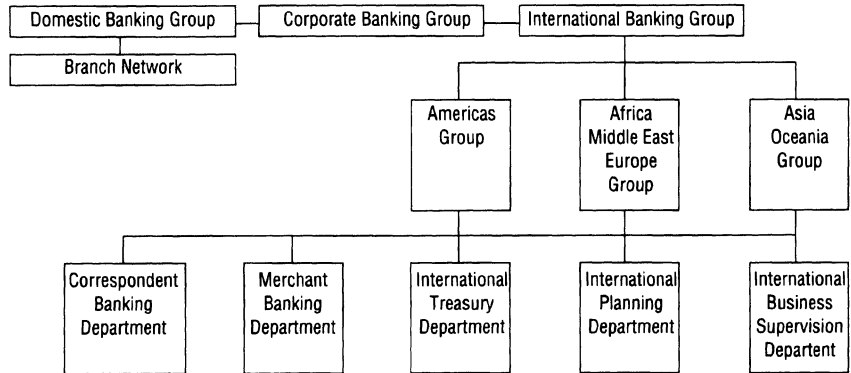
Best heading

Global banking resources

D2

After your learners have completed the organization chart, ask them to compare their chart with that of a partner. If necessary, run through the answer on the board and draw attention to the relevant details in the text. If you have the time and resources, you could ask individuals to present the structure on an overhead transparency.

Completed organization chart



D3

This is a quick comprehension check. Make sure learners justify their answers.

Answers

- 1 False. *(It services the needs of over 200 of the nation's largest corporations.)*
- 2 True. 3 True. 4 True. *(12 branches and 18 representative offices.)* 5 True.

D4

Get students to do this problem-solving task in pairs or small groups.

Answers

- 1 The savings bank. *(The commercial bank and the clearing bank both have six business sectors. All of the banks are independent, except for the merchant bank, which is a wholly-owned subsidiary. This bank is split into five line divisions, and it can thus only be the savings bank which has four line divisions.)*
- 2 The clearing bank. *(The savings bank was formed in 1920, and the commercial bank in 1928. The bank which is not independent, i.e. the merchant bank, was established in 1896, and it must therefore be the clearing bank that was formed in 1946.)*

D5

Allow approximately ten minutes for the two interviews to be carried out, and then a further ten minutes for each learner to write up his or her description. Circulate and help as necessary. Conclude by asking the learners to read through their partner's description, and to comment as necessary.

If all the learners work for the same bank, it is better that they talk about a bank in which they worked previously or about another bank they know well, such as one of their correspondent banks.

Unit 2 Bank performance

Briefing

Banks necessarily use sophisticated accounting systems to record as clearly as possible what the financial situation of the bank is. Normally such a system is based on the principle of the **double entry**, which means that each transaction is entered twice, as a **credit** in one account and as a **debit** in another account. If we deposit £100 with a bank, for example, the bank enters a debit for the receiver and a credit for the giver. The former represents an **asset** to the bank, since it is a sum of money at the bank's disposal, as well as a **liability**, since it will one day have to be repaid.

The **balance sheet** of a bank gives us a view of its financial situation at one point in time, usually 31 December of a particular year. But we do not know what has happened between two balance sheets. This information is provided by the **profit and loss account** for the period in question. Neither statement is exactly uniform from bank to bank, but both contain certain essential features.

The largest asset of a bank is normally its total portfolio of loans. Deposits usually constitute the largest liability. Balance sheets usually include the following items listed as assets:

- Cash on hand and due from banks – money in vaults, balances with other banks, cheques in process of collection.
- Investments – bonds, shares, etc.
- Loans – to companies, the general public, etc.
- Fixed assets – buildings, equipment, etc.

Items listed in the balance sheet as liabilities are:

- Deposits – all money owed to depositors
- Taxes payable – national and local
- Dividends payable – decided on, but not yet paid

The profit and loss account records the income of a bank, and here, typically, the items in order of size are:

- interest on loans
- return on investments
- fees, commissions, service charges

The granting of credit provides the largest single source of bank income. Typically, two thirds of an American commercial bank's yearly earnings result from interest on loans. Nine out of every ten dollars they lend come from depositors' funds.

The following items normally constitute the main expenses in a bank's profit and loss account, again in typical order of size:

- interest paid
- salaries and other benefits
- taxes

A bank's accounting systems, then, are designed to record and present the many transactions that take place every day. Substantial reserves over and above statutory requirements are an indication to customers of the bank's strength, that it has run its business well and has retained profits in the business for future operations. Profitability indicates the effectiveness of a bank's performance and how well it has managed the resources under its control. Published figures thus provide some essential data on the liquidity, safety and income of a bank.

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Section A **A1**

Give the group a couple of minutes in which to read the texts silently and to choose an appropriate heading for each from the list given. Check answers orally and answer any questions which may arise.

Answers

1 Loss reported; 2 Profits growth; 3 Mixed profits; 4 Profits forecast

A2

You may want to do the pre-listening task as a group activity. Once your learners have heard the informal presentation, you may also wish to elicit briefly what listed points Ed Walker did not mention.

Tapescript

PRESENTER: Ed Walker gives an informal presentation of his bank to a prospective client.

ED: I have here a copy of our last annual report for your reference which you'll no doubt want to look through later. But I can give you right now a very brief overview of our performance last year.

JEAN: OK, fine.

ED: As of December 31st 1990, the Cybulski Bank Corporation was the fifth largest bank in the United States, based on stockholders' equity, and sixth largest based on deposits. The bank has over one thousand two hundred offices around the world with some fourteen thousand employees spread over thirty-five foreign countries. And within this worldwide framework we offer a wide range of financial services to a very diverse customer base which includes corporate clients, government agencies and correspondent banks.

JEAN: Right.

ED: In 1990 we achieved record earnings coupled with our tenth consecutive year of profit growth in what is, as you know, an intensely competitive environment. Consolidated net income was five hundred and fifty million dollars, ten per cent up on 1989, and this was the second year that our net income reached the half-billion dollar mark.

A part of the bank's policy is to maintain a strong capital base and at the end of 1990 our total assets amounted to over sixty-five billion dollars. We hold deposits of around thirty-seven point eight billion dollars and net interest income alone in fiscal 90 was one point nine billion dollars. In addition, we hold two point two billion dollars' worth of investment securities. Net income, the net income per

share for the period, was five dollars sixty-five. So, all in all, it was a pretty good year, and a year that we are proud of.

JEAN: Yes, I can imagine.

PRESENTER: That was Ed giving us a broad view of his bank's financial performance for 1990.

Points mentioned by Ed

Size of the bank based on stockholders' equity, deposits, number of offices and staff; earnings; consolidated net income; total assets; deposits; net interest income; investment securities; net income per share.

A3

Direct the learners' attention to the extract from the Annual Report and the information to be filled in. Then replay the presentation, stopping the cassette to allow time for the learners to write in the missing figures.

Highlights		
\$ In millions, except per share data		
For the Year	1990	1989
Net Income	550	500
Net Interest Income	1,900	1,600
Per Share		
Net Income	5.65	4.80
At Year-End		
Assets	65,000	59,000
Deposits	37,800	34,700
Investment Securities	2,200	1,900
Employees	14,000	13,650
Number of Offices	1,200	1,150

A4

Allow the pairs a few minutes in which to look through the extracts and to discuss possible answers. Then replay the presentation, stopping it immediately after each target word or phrase.

Answers

1 annual report; 2 brief overview; 3 stockholders' equity; 4 deposits; 5 very diverse customer base; 6 corporate clients; 7 correspondent banks; 8 record earnings; 9 tenth consecutive year; 10 Consolidated net income 11 our total assets; 12 fiscal 90; 13 investment securities

A5

Answers

- 1 One thousand two hundred; twelve hundred
- 2 Five hundred and sixty million
- 3 Five billion; five thousand million. (Note that the first is used in American English and the second in British English. British English may, however, use the

word *billion* in the American sense.)

- 4 Thirty-seven million six hundred thousand; thirty-seven point six million
- 5 One million five hundred thousand six hundred and seventy two
- 6 One and a half million; one point five million; one million five hundred thousand

Section B **B1**

You may want to ask learners where they would expect to meet those expressions which they crossed.

Answers

- 1 ✓; 2 ✗ – more likely to be read in an advertisement or, perhaps, an annual report;
- 3 ✓; 4 ✓; 5 ✓; 6 ✗ – typical of the auditor's report in an annual report; 7 ✓;
- 8 ✓; 9 ✓

B2

Point out that the purpose of this first listening is to answer the three questions only.

Tapescript

PRESENTER: Claire Seal gives some information about her bank to a group of professional visitors from abroad.

CLAIRE: This diagram gives a very brief summary of some of the key figures relating to our performance in 1990. We'll be meeting these figures again later in greater detail, but it may be useful at this stage to present them and to indicate a number of important trends.

If we begin with income then, you will see that the total group income amounted to a record level of one hundred and fifty-five million pounds, an increase of nearly fifteen per cent on the previous year, a rate of increase slightly above that of recent years. Interest received amounted to six hundred and fifteen million pounds, and interest paid to five hundred and sixteen million, leaving us with a net interest income of ninety-nine million pounds. This is eleven per cent up over the 1989 figure and represents sixty-four per cent of the total group income for 1990. The net interest income is quite satisfactory in itself, given the very difficult market conditions, but what is especially significant is the increase in non-interest income from forty-six to fifty-six million pounds, an increase of some twenty-two per cent. A very important part of the bank's policy lies in limiting dependence on net interest as a source of income and in developing its fee and commission earning activities, and 1990 income in this area accounted for a two per cent higher contribution to total income than was the case in 1989. This is an encouraging trend, as it reflects the bank's response to the changing economic environment in general and to the sensitivity of interest rates in particular. Non-interest income then of fifty-six million pounds, making the total income for the year of one hundred and fifty-five million pounds, twenty million pounds higher than the previous year.

PRESENTER: Claire, there, giving details about the bank's income for 1990.

Answers

This diagram gives a very *brief summary* of some of the *key figures* relating to our performance in 1990. We'll be *meeting* these figures again later in *greater detail*, but it may be *useful* at *this stage* to present them and to *indicate* a number of *important trends*.

If we *begin with* income, *then*, you *will see* that the total group income *amounted* to a *record level* of £150 million, an *increase* of *nearly* 15 per cent on the *previous* year, a *rate of* increase *slightly* above that of recent years.

B5

Take the items one by one, rather than letting the learners look through all ten to begin with. Allow sufficient time for the learners to read all four choices in a question, and then elicit oral answers. Discuss as necessary. Finally, you may wish to ask two or three reinforcement questions, with the learners not looking at the book, e.g.

- What do we call services for which charges can be made?
- What do we call a short report of the main points?

Answers

1c; 2b; 3a; 4d; 5a (b = net interest expense, c = gross interest, d = net investment income); 6c (a = unique); 7d (a = foreign exchange dealing); 8d; 9c; 10b;

Section C C1

Tapescript

PRESENTER: Claire continues her presentation.

CLAIRE: We've seen the income; let's now look at the outgoings. The largest of these is staff costs which increased by ten million pounds, or eighteen per cent, to sixty-five million pounds in 1990. This increase is larger than in previous years and is partly due to the increase in staff numbers needed to handle the expansion of the bank's fee-generating activities which I have just mentioned.

Provisions for doubtful debts increased to eight million pounds. Depreciation on leased assets and on premises and equipment, calculated on a straight line basis, amounted to fifteen million pounds.

Other expenses increased by a little under seventeen per cent, from twenty-four million to twenty-eight million pounds, the smallest annual increase since 1987, which I think illustrates our determination to keep costs under control.

Tax – not much to say there really – other than to note that we paid five million pounds, or twenty-five per cent more than in 1989, taking us, in fact, up to twenty-five million pounds.

Dividends remained unchanged over the previous year at five million pounds, as the major part of the year's profit was retained to expand our consolidated capital base. Our balance sheet footings have been growing steadily over recent years and this was in fact the first year in which they passed the three billion pounds mark.

After allocation of the dividends, there remained a net undistributed balance for the year of nine million pounds which was transferred to reserves.

All this adds up to total group outgoings of one hundred and fifty-five million pounds, balancing out with the total income that we've already seen, figures which are, as I say, twenty million pounds up over the previous year.

So I think I'll stop there for a moment and answer any questions that you might have.

PRESENTER: So now we know both about the source of income and the application of income for Claire's bank for the previous financial year.

Answers

Tax	4
Provisions for doubtful debts	2
Other expenses	3
Staff costs	1
Dividends	5

C2

Answers

See B3.

C3

Allow the pairs a few minutes in which to look at the extracts and to discuss possible answers. Then replay the cassette, stopping it immediately after each target word or phrase.

Answers

1 outgoings; 2 staff costs; 3 fee-generating activities; 4 Provisions for doubtful debts; 5 Depreciation on leased assets ... premises; 6 expenses; 7 annual; 8 Dividends; 9 retained; 10 footings; 11 allocation; 12 undistributed balance; 13 transferred to reserves

C4

Allow the learners a few minutes to give their views in column A and to answer any questions they may have about the categories.

Then split the group into pairs to work on column B. Explain that the individuals in the pairs should discuss the order of priority which they have in column A, with the aim of agreeing on a common order of importance for column B.

When they have agreed on a common order of importance for column B, ask everyone to calculate the difference between the numerical value that they have in column A and the numerical value that they have in column B, item by item. These differences can then be added up. The member of each pair who has the lowest total can be said to have discussed and reasoned the most successfully, since his or her orders of importance in columns A and B are closer than those of the other person.

C5

Allow up to ten minutes for preparation. If the group is a large one, it is better to

avoid the tedium of several consecutive presentations by dividing the group into pairs, and asking each person to make their presentation to a partner. If you do this, circulate among the pairs, monitoring performance, and giving any necessary feedback. Encourage the listeners to ask any questions that they might have after the conclusion of each presentation.

No presentation should take more than five minutes, and the total activity should not exceed twenty minutes.

Section D **D1**

Answers

- 1 Profit and Loss Account (usually called *Statement of Income* in the USA).
- 2 The figures are *consolidated*, which means that they relate to one bank and its subsidiaries, i.e. a group of companies.
- 3 £678,000 (£24,541,000–£23,863,000).
- 4 £1,006,000 (£14,395,000–£13,389,000).
- 5 The bank retained £328,000 more in 1990 than in 1989 (£7,224,000–£6,896,000).
- 6 They are after money put aside for possible credit losses, i.e. after provisions for doubtful debts.

D2

A couple of minutes should be sufficient for the learners to answer the two questions. Calculators will probably be required.

Answers

- 1 By far the largest increase in assets is the increase in loans to banks and public bodies, which went up by £160,953,000, an increase of 16.1 per cent. The bank has to obtain the money it lends, so not surprisingly the other main increase is to be found under the liabilities, namely the item marked *Current, deposit and other accounts*. This is the money deposited with the bank by its customers, which increased by £202,799,000 in 1990, or 12.16 per cent.
- 2 14.37 per cent.

D3

Give the group approximately ten minutes to read the Balance Sheet and to answer the questions.

Answers

- 1 Consolidated Balance Sheet (often called *Consolidated Statement of Condition* by banks in the USA).
- 2 £2,658,797,000, i.e. the total assets.
- 3 The £5 million is included in the £1,159,082,000 total of loans to banks and public bodies.
- 4 £598,820,000.
- 5 £939,000 (£4,795,000 – £3,856,000).

- 6 £95,415,000.
- 7 £15,867,000.
- 8 £2,658,797,000.
- 9 The money put aside in 1990 for future taxes is greater than taxes paid in 1990 by £3,657,000 (£18,052,000 – £14,395,000).
- 10 £4 each. (There are 20 million shares at £1 each. The total share capital is £40 million, and so the remaining 5 million shares must have cost £20 million. Divide this by 5 million shares, and the price per share is £4.)
- 11 £7,169,000 (£135,658,000 – £128,489,000).
- 12 Minority interests.

D4

Divide the group into pairs and allow a few minutes for them to answer the questions. If you notice a pair having difficulty, get them to use a matrix format, as shown below. Elicit oral answers to the questions, and ask a pair with the correct answers to explain how they deduced them. If the group is no more than five or six, you may prefer to ask them to work together, with one person listing information on the board. It is then best to use the matrix format.

Answers

1 Bank A; 2 Bank C

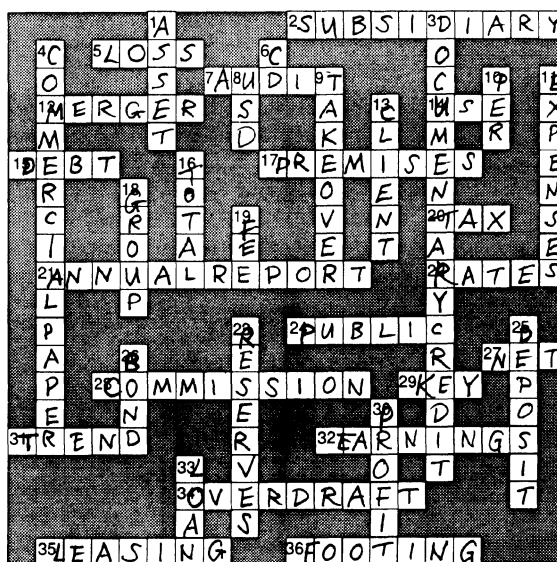
	Bank A	Bank B	Bank C
Profit after taxation	£10m	£16m	£20m
Dividends	£5m	£8m	£9m
Retained earnings	£5m	£8m	X
Total assets 1.5 bn	X		3 bn

D5

The crossword puzzle may be set as a self-access exercise.

D6

Give the learners a few minutes in which to draw up their financial summaries. Figures need not be exact. Divide the group into pairs, and allow a couple of minutes or so for a person to discuss his or her summary with the other person in the pair.



Unit 3 Foreign exchange

Briefing

Foreign exchange dealing is, as its name implies, the exchange of the currency of one country for the currency of another. The **rate of exchange** is the value of one unit of the foreign currency expressed in the other currency concerned.

With the growth of global trade, many companies need foreign currencies to pay producers in other countries. A British company with a supplier in Germany, for example, will probably use sterling to buy Deutschmarks from its bank in order to pay an invoice from the German company. The bank buys the Deutschmarks from another bank at a particular rate and provides them to its customer at a higher rate, thus making a profit. Similarly, a bank may make gains on buying and selling currencies on the inter-bank market. Making a profit on the transaction is the basic idea of foreign exchange dealing.

Currencies can be bought or sold in the foreign exchange market either for immediate delivery, that is at the **spot rate**, or for delivery later (e.g. two weeks, three months, etc.) at a **forward rate**. The forward market is useful for companies, since if a company knows that it will need a particular foreign currency to pay a bill in four weeks' time, for example, a forward deal enables it to protect itself against future adverse movements in the exchange rate which would have otherwise had the effect of making the foreign goods more expensive.

When dealing in foreign exchange, normally by telephone, the bank quotes both the selling and buying rate of a currency at which it is prepared to transact business. Settlement for a spot transaction is two working days later. Thus if a contract is made on Monday, the seller delivers the amount sold and receives payment on Wednesday. Similarly if the contract is made on Tuesday, value is Thursday.

Currency traded in this way is delivered to the buyer's account with a bank in the main centre, or one of the main centres, for the currency in question. In the case of sterling, for example, this is London, for Dutch guilders it is Amsterdam and Rotterdam, and for Belgian francs it is Brussels and Antwerp. The buyer decides the bank where his or her account is to be credited.

The foreign exchange dealer fills in a dealing slip containing basic information such as the date and time of the deal, the contracting party, the amount and rate agreed on, the date of settlement, and the place of delivery of the currency dealt in. As soon as a foreign exchange transaction has been carried out, both banks send a written confirmation containing the basic information mentioned above. Any discrepancies may thus be detected quickly.

A bank holding debts or claims in a foreign currency is itself exposed to an exchange risk, unless the debts and claims neutralize each other by being of equal size and by having roughly the same maturity dates. Dealers therefore aim for a balanced total position. If the amount of a bank's claims in dollars, for example, is larger than the total debts in dollars, then the bank has a **long position**, but if the

debts are larger than the claims, the bank is **short in dollars**. As long as the total position balances, there is no risk for the bank.

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Section A **A1**

You may want to ask the group to give the name of each country's currency unit.

Answers

NLG = Holland; BEF = Belgium; GBP = Great Britain; AUD = Australia;
ITL = Italy; USD = United States of America; CAD = Canada; JPY = Japan;
NOK = Norway; SEK = Sweden; DKK = Denmark; CHF = Switzerland;
DEM = Germany; FRF = France; ESP = Spain

A2

Tapescript

PRESENTER: Alan King explains some of the basic principles of foreign exchange dealing.

ALAN: We're accounted in sterling, but generally all dealings are based on the dollar. So, for instance, your spot prices are dollar Deutschmark, OK? That's the big market really, dollar Deutschmark. And it's the movement in the dollar which is really moving the market. I mean, for instance, yesterday the dollar rates firmed up a little. They went up about a sixteenth to an eighth of a per cent. So people buy dollars because the interest differential between dollars and Deutschmarks is widening. So I mean, if you buy dollars, OK, you, you can lend them out on the next day at, say, eleven and a half per cent. You're short of Deutschmarks that day, and you have to purchase, borrow those for one day, and that's about five and a half per cent. So you're talking about six per cent difference. The basic idea of spot dealing is to buy dollars low and sell high. That's the basis of making a profit.

INTERVIEWER: So why would you need Deutschmarks on a particular day? You said you'd be short in Deutschmarks so you'd have to borrow them ...

ALAN: Well, to square the account for that day. We're dealing ahead all the time. The spot market is dealing two working days forward. So, for instance, if I bought dollars against Deutschmarks, I would come in tomorrow and find that on the seventeenth I'm short in Deutschmarks and long in dollars. So then I would go into the market and say 'What's your tom/next dollar mark?'

INTERVIEWER: What's your what?

ALAN: Tom/next dollar mark. They're dealing terms, OK?

INTERVIEWER: Yeah, OK.

ALAN: We have spot which is normal buying and selling of currencies. Then we have a tom/next. Now a tom/next simply means tomorrow to the next day. Then we have a spot/next which is your two days' forward dealing value date to the next day.

INTERVIEWER: Yeah.

ALAN: Then you have a spot a week, a spot a fortnight. Then you go one, two, three months and so on. We also have outrights. So someone can ask 'What is your spot dollar mark outright tomorrow?' It's just that you're quoting a spot rate but it's from tomorrow, and you adjust the price, depending what the price is for the tom/next swap. It's always, it's always relative to the two day forward dealing rate.

INTERVIEWER: So the ... yeah, yeah, OK. I don't, I don't see what an outright is.

ALAN: Well, an outright is simply ... we also have the term swaps, in forward dealing, which is when you lend one currency and borrow another for a certain period of time. There are two related contracts, one sale and one purchase, and you're taking into consideration different interest rates, trading on the movement in two currencies. By using a simple calculation these swaps can calculate into another currency's deposits, so that the relationship between the two currencies determines the forward pricing. Now an outright is if someone wants to buy Deutschmarks and sell dollars on any particular day. It's not, it's not connected to a corresponding spot transaction. Say, for instance, two month's time, a company has to cover its Deutschmark payments, so they cover their foreign exchange exposure by buying Deutschmarks from tomorrow to that day. So they would ring us and say 'What is your price spot dollar mark outright to the tenth of October?' And that is an outright.

PRESENTER: So now we know a little about the principles and terminology of foreign exchange dealing.

Answer

Alan King talks about the terms used in foreign exchange dealing (2) and some basic principles of foreign exchange dealing (3).

A3

Make sure that your learners give reasons for their true or false answers.

Answers

- 1 False. They are based on the dollar, but the bank is accounted in sterling.
- 2 True.
- 3 False. It means from tomorrow to the next day.
- 4 True. But note that Alan adds that it is from tomorrow, and that the price is adjusted depending on what the price is for the tom/next swap.
- 5 True.
- 6 False.
- 7 False. An example given by Alan indicates that the conversation took place in August. A customer wishing to cover its Deutschmark payments in two months' time would telephone and say 'What is your price spot dollar mark outright to the tenth of October?'

A4

Ask your learners to tell you to stop the cassette when the actual word or phrase is given. If the group misses an item, then replay the target word or phrase several times rather than letting the cassette run on.

Answers

1 sterling; 2 spot prices; 3 firmed up a little; 4 interest differential ... widening; 5 purchase; 6 profit; 7 square; 8 short in Deutschmarks and long in dollars; 9 spot a fortnight; 10 outright; 11 quoting; 12 swap; 13 determines; 14 exposure

A5

Replay the relevant part of the interview, pausing the tape to enable the learners to write in the unstressed words.

Answers

We're accounted *in* sterling, but generally all dealings *are* based *on* the dollar. So, *for* instance, your spot prices *are* dollar Deutschmark, OK? *That's* the big market really, dollar Deutschmark. And *it's* the movement in the dollar which is really moving *the* market. I mean, *for* instance yesterday, the dollar rates firmed up *a* little. They went up about *a* sixteenth to *an* eighth of *a* per cent. So people buy dollars *because* the interest differential between dollars *and* Deutschmarks is widening. So *I* mean, if you buy dollars, OK, you, you *can* lend them out *the* next day *at* say eleven and *a* half per cent. *You're* short *of* Deutschmarks that day, and you have *to* purchase, borrow those *for* one day, and that's about five *and* *a* half per cent. So *you're* talking about six per cent difference. The basic idea *of* spot dealing is to buy dollars low *and* sell high. That is the basis *of* making *a* profit.

Section B **B1**

Allow a minute or so for the group to look through the 12 items and to make their choices individually. Let them compare answers with those of a partner, and then elicit oral answers. For those numbers which they have crossed, can they suggest where they might expect to meet these expressions?

Answers

1 ✗ – typical of a letter; 2 ✓; 3 ✓; 4 ✓; 5 ✓; 6 ✗ – typical of a telex; 7 ✗ – typical of a headline in a magazine or newspaper; 8 ✓; 9 ✓; 10 ✓; 11 ✗ – typical of a letter; 12 ✓

B2**Tapescript**

PRESENTER: Alan King calls Tove Strutz.

TOVE: Tove Strutz.

ALAN: Hello, Tove. This is Alan King, Key Commercial. How are you?

TOVE: Hello, Alan. I'm fine, thanks. How are you?

ALAN: Very well, thanks. The sun's shining here!

TOVE: Ah.

ALAN: When er ... are you coming over to London, Tove?

TOVE: Yes, as a matter of fact I'm coming over in the New Year.

ALAN: Really? Perhaps we could get together, have lunch, dinner. What do you think?

TOVE: Yes, dinner would be nice. Could you give me a ring a bit nearer the date?

ALAN: Yes, OK, just before Christmas then. Is there anything that we could quote for you today?

TOVE: Well, let me see now. There is, actually. We need to buy some Deutschmarks. What's the spot price?

ALAN: For how much?

TOVE: Two million.

- ALAN: OK. Two million. Hold on for a moment.
Hello, Tove. The spot inter-bank price is two hundred and twelve point sixty-one thirty-five, and I've calculated with a dollar/mark rate of two point thirty-six sixty-five and a Swedish dollar of seven point thirty-nine eighty.
- TOVE: Mm, OK, I agree. I've got the same prices on my screen. But do you really need to add ten pips? Couldn't we say five, as it's nearly Christmas?
- ALAN: OK Tove, but only because it's Christmas. Five pips. How's that?
- TOVE: OK, that sounds good. I'll take that price. Thanks a lot.
- ALAN: Right, hold on. Two million Deutschmarks, Tove, at two hundred and twelve point sixty-one forty, value the thirteenth.
- TOVE: Yes, done. Two million at two hundred and twelve point sixty-one forty, value the thirteenth, credit our DM account with Northland Bank, Stockholm.
- ALAN: Right. I credit you at Northland Bank Stockholm, and please cover our SEK account at the same bank.
- TOVE: OK, fine.
- ALAN: Thanks a lot for the deal. I'll talk to you again soon.
- TOVE: Thank you, Alan. Nice to hear from you. Goodbye.
- ALAN: Bye now.
- PRESENTER: So Alan made his telephone call at the right time, as he was able to provide a foreign exchange service for one of his regular corporate clients.

Answers

1 Shortly before Christmas. 2 Alan sells Deutschmarks to Tove.

B3

Completed form

CURRENCY PURCHASE/SALE	
Bank and dealer	Key Commercial, Alan King
Currency & amount	DEM 2,000,000
Rate of exchange	212.6140
Value date	December 13
SEK amount	4,252,280
Date	December 11
Notes Receive DEM, our DEM a/c at Northland Bank, Stockholm. Pay SEK to Key's SEK a/c at Northland Bank.	

B4

As with A4, ask the learners to tell you to stop the cassette when the actual word or phrase is given.

Answers

1 as a matter of fact; 2 get together; 3 give me a ring; 4 quote; 5 spot price; 6 inter-bank price; 7 a Swedish dollar; 8 screen; 9 pips; 10 hold on; 11 value; 12 done; 13 credit; 14 cover

B5

Let the group read through the list of responses. Explain that you want an appropriate response from this list in reply to each of the remarks on the cassette. Play the cassette, eliciting answers in the pauses.

Tapescript

PRESENTER: You are going to hear eight sentences which you might hear in a telephone conversation. Respond to them with one of the sentences shown in the book.

- 1 This is Alan King, Key Commercial. How are you?
- 2 I'm fine, thanks. How are you?
- 3 Perhaps we could get together, have lunch, dinner. What do you think?
- 4 Could you give me a ring a bit nearer the date?
- 5 Is there anything that we could quote for you today?
- 6 What's the spot price?
- 7 How's that?
- 8 Thanks a lot for the deal. I'll talk to you again soon.

Answers

- 1 Fine thanks. And you? (C)
- 2 Very well thanks. (F)
- 3 Yes, that would be nice. (B)
- 4 Yes, OK. In a couple of weeks, then. (D)
- 5 Let me think. As a matter of fact there is, yes. (E)
- 6 For how much? (H)
- 7 Yes, that's fine. (G)
- 8 OK. Thanks for calling. Bye now. (A)

B6**Answers**

- 1 One eighth plus three thirty-seconds.
- 2 Three sixteenths of a per cent.
- 3 Five and three-quarters of a per cent.
- 4 Six hundred thousand five hundred and forty-one.
- 5 Two million dollars.
- 6 Seven point three nine eight oh.
- 7 Two point six oh two eight divided by nought point nought nought three seven equals two point five nine nine one.
- 8 Five hundred thousand times ten point six four equals five million three hundred and twenty thousand.
- 9 Two hundred and forty divided by two and a half equals ninety-six.
- 10 Twelve and a quarter plus twenty-one and two-thirds equals thirty-three and eleven-twelfths.

Section C C1

Use the questions either for small group discussion or for whole group discussion, depending on the size of the group. Monitor performance, and give any necessary feedback.

C2**Tapescript**

PRESENTER: Alan receives a telephone call from Jan Ackerman.

ALAN: Key Commercial. Alan King.

JAN: Hello Alan, it's Jan.

ALAN: Hello Jan. How are you?

JAN: Very well, thanks. And you?

ALAN: Fine, thanks.

JAN: Good, what's dollar mark, please?

ALAN: Dollar mark. Twenty-eight thirty.

JAN: Twenty-eight thirty.

ALAN: Twenty-eight thirty.

JAN: OK, twenty-eight thirty. I have probably a small interest in two weeks, swap.

ALAN: OK, just let me get the two weeks price for you.

JAN: Yes.

ALAN: Do you want another price or what would you like to do?

JAN: No, we'll, we'll speak about the forward first.

ALAN: So we'll get the swap first.

JAN: Yes, the swap forward, yes.

ALAN: OK, just a second. For two weeks out of spot?

JAN: Yes.

ALAN: OK. What ... two dollars?

JAN: No, no, no. It's a small amount.

ALAN: A small amount.

JAN: Yes.

ALAN: Less than a dollar?

JAN: Yes.

ALAN: OK, just a second. Hello, Jan?

JAN: Yes.

ALAN: Yes, the the swap is thirty-seven thirty-five for a small amount.

JAN: Thirty-seven thirty-five.

ALAN: Yes.

JAN: And you ... twenty-five thirty at two point sixty, wasn't it?

ALAN: Yeah, but that price has changed of course.

JAN: Yeah, yes. Can you give me an actual spot?

ALAN: You want an actual spot?

JAN: Yes.

ALAN: OK. Just a second. Still twenty-eight thirty, yes.

JAN: OK. I can give you half a dollar outright.

ALAN: OK. Um, so we'll do some ... what we're saying two, two sixty.

JAN: Yes, it will be two fifty-nine.

- ALAN: Twenty-eight and we're going to take out thirty-seven, so that's five and three seven ...
- JAN: Eighty-eight, I think. Two fifty-nine eighty-eight.
- ALAN: No, I think we, we're taking off thirty-seven, aren't we?
- JAN: Yes.
- ALAN: So, if we're ... take off, two sixty twenty-eight was the price.
- JAN: Ah, was it twenty-eight?
- ALAN: Yes.
- JAN: OK, I thought it was twenty-five. OK.
- ALAN: No. Twenty-eight, yes. Two sixty twenty-eight.
- JAN: Yes.
- ALAN: Take away thirty-seven, so we're talking about ...
- JAN: Two fifty-nine ninety-one then.
- ALAN: Nine nine one. That's right.
- JAN: Yeah, two fifty-nine ninety-one.
- ALAN: Two fifty-nine ninety-one, and it's five hundred thousand dollars.
- JAN: Yes.
- ALAN: So two fifty-nine ninety-one is the outright. Value will be the ... what's the value? Just a second. I've lost my calendar. Someone's taken my calendar. Just a second. Sorry, they they've changed my ... talking about, I think the ninth.
- JAN: Monday.
- ALAN: Yes, I think the ninth. The ninth of ...
- JAN: ... December, yes.
- ALAN: The ninth of December, yes.
- JAN: I sold you five hundred thousand dollars against D marks ...
- ALAN: Yes.
- JAN: ... and er you take Key Commercial in New York, and I take ...
- ALAN: FHB?
- JAN: FHB Frankfurt for my D marks, yes.
- ALAN: OK.
- JAN: Half a million done.
- ALAN: Half a million done. Thank you very much, Jan.
- JAN: Bye, Alan. Bye.
- ALAN: Bye.
- PRESENTER: Two foreign exchange dealers making one of the many foreign exchange deals that take place every day between banks around the world.

Answers

- 1 No. It is clear that they already know each other.
- 2 Dollar/Deutschmark.
- 3 Small (USD 500,000).

C3

This second listening task may be quite difficult for weaker groups and you may want to have the learners do the task in pairs.

Answers

Spot rate:	Buy \$ 2.6028 DEM	Sell \$ 2.6030 DEM
Two weeks' swap rate:	Bid rate (the bank's lending rate) 2.5991 DEM	Offer rate (the bank's borrowing rate) 2.5995 DEM

C4

If learners do this task on their own, give them an opportunity to compare their answers with those of another member of the group.

Completed settlement form

VAN ZEAHALM BANK 1007 AK Amsterdam	
DATE: <i>November 21</i>	TO: <i>Key Commercial</i>
WE CONFIRM HAVING BOUGHT FROM YOU:	
CURRENCY	PURCHASE AMOUNT:
FOR PAYMENT TO OUR RECEIVING AGENTS:	
WE CONFIRM HAVING SOLD TO YOU:	
CURRENCY: <i>USD</i>	SALE AMOUNT:
FOR PAYMENT TO YOUR RECEIVING AGENTS: <i>Key Commercial New York</i>	
EXCHANGE RATE: <i>2.5991</i>	VALUE DATE: <i>December 9</i>

C5**Answers**

1 dollar mark; 2 swap; 3 just a second ... out of spot; 4 dollar; 5 an actual spot; 6 give you half a dollar outright; 7 Value; 8 calendar; 9 Half a million done

C6

This is a short simulation activity. Ask the learners to read their own instructions only and not to look at the instructions for the other person. Allow a few minutes

for each learner to work out his or her task. Help with any individual problems. Circulate and monitor performance. Do not let the activity run for much more than ten minutes. Ask each group for brief details of their call. Conclude with any necessary language feedback.

D1

Allow the learners only a short time to read the text and to match the currencies with the graphs.

Answers

A = DM; B = US Dollar; C = GBP; D = JPY

D2**Answers**

USD 1 = DM 2.9925 GBP 1 = USD 1.3016 GBP 1 = JPY 337

USD 1 = JPY 258.9121 GBP = DM 2.2990

D3

Make sure that learners justify their answers.

Answers

- 1 False. The fact that markets are declining towards the end of the year and that the big banks are squaring their positions for the year-end indicates that the article was written in December.
- 2 True.
- 3 True.
- 4 True.
- 5 False. Trading volumes were low, in lack-lustre trading.
- 6 True. They have been volatile
- 7 True. Banks were covering short positions.
- 8 True.
- 9 True.
- 10 False. The yen has continued to climb and has outperformed European currencies for most of the year.

D4

It should not take individuals more than a couple of minutes to work out the total position of the bank. If anyone gets the wrong answer, ask someone with the right answer to explain how he or she arrived at it.

Answer

The bank's total position in US dollars is 5 million long.

Explanation: the current position as shown by the totals under A is 5 million short. The forward position shown by the totals under B, however, is 10 million long, and thus the total position is 5 million long.

Unit 4 Meetings

Briefing

Banks provide a wide variety of services to companies, and a company operating internationally is likely to use several banks around the world to meet its various needs. Banks keep in touch with these customers by telephone and perhaps with regular meetings, to maintain the relationship and to market new services.

Most companies use banks at one time or another to finance their operations. As with any other type of loan, banks charge interest on corporate loans. Interest rates for loans in Britain, for example, can be charged in one of three ways:

- at a margin above the bank's base rate. Each bank decides its own base rate, and then charges the company a rate of interest which is related to this. A big customer with a very good reputation may be charged the bank's base rate plus 0.5%, for example, while a smaller company might be charged the base rate plus 3%.
- at a margin above LIBOR, the margin again depending on the bank's assessment of the corporate customer.
- at a fixed rate of interest for the period of the loan.

The first two ways are variable and are adjusted periodically to reflect movements in interest rates on the market. They may also be negotiable. The third may be dangerous for the bank when market rates are erratic.

A company involved in a business where income and expenditure are subject to constant changes needs a variable borrowing facility. This is met most simply by an **overdraft facility**. The company opens an account with the bank, and an overdraft with a specified limit is granted on the account.

A **standby letter of credit** is a commitment under which a bank agrees to provide funds to a customer where, unlike most other forms of documentary credits, no goods are involved. The standby letter of credit is a flexible form of lending and can cover a variety of situations, in which procedures are reduced to a statement of the documents to be received before payment is made to the third party.

Many companies make a profit not only from the goods or services which they sell, but also from the money that they have. Cash managers utilize funds at their disposal, buying and selling shares, treasury bills and so on, to generate profit in the form of investment income. Rather than move valuable foreign shares and securities around the world by post, a company will deposit them for safe keeping with a bank in the foreign country. A company in Sweden which buys shares on the American market, for example, will use the **custodian services** of a US bank. Banks naturally charge fees and/or commissions for custodian services.

Section A **A1**

This is a warm-up task which focusses the learner's attention on the kind of language used in meetings.

Answers

1 ✓; 2 ✓; 3 ✗ – typical of an official notice; 4 ✓; 5 ✓; 6 ✗ – typical of an advertisement; 7 ✓; 8 ✗ – typical of a letter; 9 ✓; 10 ✓; 11 ✗ – typical of formal written language; 12 ✓

A2

You may want your learners to listen first to the conversation without having to do the guided note-taking task.

Tapescript

PRESENTER: Diane Francis meets Ulf Edberg.

ULF: One of the points you mentioned in your letter was our current letter of credit facility and our requirements for '92.

DIANE: Mm. Yes.

ULF: I know it's mid October but I'm not sure yet about our requirements. But I'm worried about the increase in your commissions that you have advised and I've heard from other US banks too, due to the change in United States legislation. As we discussed last time, this means that it will cost us three times as much as before, and then I just wonder if we could explore alternatives to the standby letter of credit. I guess we have around the countervalue of eight hundred million Swedish kronor in your bank, and it will be very expensive now when you ... now we pay a quarter of a per cent, and then, as you told me last time, it will be around at least zero point seven five of a per cent per annum flat on the outstanding amount. And that's too expensive.

DIANE: That's on the outstanding volume of letters of credit?

ULF: Right. So perhaps we could have instead a – what do you call it? – a trust fund with our own securities, and then perhaps we ... with the possibility for us to buy and sell within the trust fund. I think that could be an acceptable alternative for both of us.

DIANE: OK Ulf, but you can't say very much else yet about 1992.

ULF: No, I don't know our, really our needs for '92, because I haven't spoken yet to people in the different departments. But I'm sure we will decrease the volume of letters of credit quite heavily because the charges will be too expensive.

DIANE: OK, Ulf. So you'd prefer a trust fund to the standby letter of credit facility.

ULF: Yeah.

DIANE I'm sure that we can help you there, and trust funds are something in which we can offer you considerable expertise. I'll go away, give the matter a lot of thought, and give you our outline proposals early next month. Then we can take the discussion from there.

ULF: OK, fine.

PRESENTER: So Diane's bank may be able to offer Ulf's company another type of service, one which would seem to reduce the company's banking costs quite considerably.

Completed report

Meeting held on 15 October 1991
Location: Denavian Insurance Company, Stockholm
Present: Ulf Edberg (Treasurer, Denavian) - self
Agenda: 1. Letter of Credit Facility
Client is not yet sure about company requirements for 1992.
Expressed worry, however, over the increase in our commissions, and estimates that this will cost Denavian three times as much as before. Client pointed out that the countervalue of SEK 800 million is deposited with us. Currently pays 0.25% for outstanding volume of standby letters of credit, but changes will mean paying 0.75% flat on this amount. Requested that we look into the possibility of setting up a trust fund with Denavian's securities. Volume of letters of credit likely to fall quite heavily because of increased charges. I promised to investigate the possibilities of setting up a trust fund, and to contact the client early next month with our outline proposals.

A3

You could ask your learners to do this task from memory before they hear the conversation again.

Answers

1 mentioned ... current; 2 United States legislation; 3 explore ... standby letter of credit; 4 flat; 5 outstanding volume; 6 a trust fund; 7 decrease; 8 considerable expertise; 9 outline proposals

A4

This task prepares the learners for the short role play activity in A5.

Answers

1 B; 2 F; 3 I; 4 J; 5 E; 6 A; 7 D; 8 G; 9 C; 10 K; 11 H

A5

Conduct the activity as simultaneous pair work. Circulate and monitor performance. Conclude with any necessary feedback.

Section B B1

Give the group a couple of minutes in which to read the letter and to make their individual choices for the last paragraph. If necessary, briefly discuss why the other two alternatives are inappropriate.

Answer

Paragraph 2: *Naturally this list is not exhaustive ...*

B2**Tapescript**

PRESENTER: Ulf Edberg meets Clive Bond.

ULF: Could we take up the question of the interest rate charged for this overdraft facility?

CLIVE: Yes, of course.

ULF: It seems to be rather high: one per cent over Wallers base rate. First of all, what is the base rate?

CLIVE: It's our basic lending rate which at the moment is eleven per cent.

ULF: Yeah, I see. It's more or less the overnight rate, then, as I understand it, your base rate.

CLIVE: Yes.

ULF: But a mark-up of one per cent seems rather high. As you know, we work with a lot of banks, and, quite frankly, one per cent is just too expensive for us.

CLIVE: Mm, I see.

ULF: I think you'll have to think about this, Clive, because we're not interested in having the facility if it is going to be so expensive for us to use it. We work with Key Commercial Bank too, and just for your information there we pay zero point two per cent above LIBOR, more or less the same as Wallers base rate. So, er, these terms ...

CLIVE: What kind of reduction did you have in mind?

ULF: Well, a margin more in line with what we can get from the other banks. Say zero point two five per cent above your base rate.

CLIVE: Zero point two five ...

ULF: Yeah, at the very highest. We'd be prepared to pay that little bit extra simply to maintain our working relationship. But one per cent is just too high for a company like Denavian.

CLIVE: Yes, the ...

ULF: By the way, I haven't told you, but it could be useful for you when you take this up in the credit committee in the bank. We have been rated now by Allbright and Rich, and for short-term debt we have A one plus, and as you know that's the best you can get.

CLIVE: That's credit rating?

ULF: Yeah, credit rating, and for the long-term we have triple A. And that's also the best. There's no risk involved for you, so one per cent for the overdraft facility ... we'd really like you to review that.

CLIVE: Fine, I've made a note of it. I'll take it up when I get back to London, and I'll get in touch with you. All right?

ULF: Yeah, do that. Then you can confirm it. If it's positive. Otherwise, there's not much

point in us keeping this facility.
 PRESENTER: So if Clive wants Ulf's company to use the overdraft facility, it looks as if the bank must first reduce its margin.

Answers

- 1 An overdraft facility.
- 2 Ulf thinks the charge is too high.
- 3 Clive promises to discuss the interest rate in the bank when he gets back to London, and then to get in touch with Ulf.

B3

You could ask your learners to complete the notes from memory and then compare their versions before hearing the conversation again.

Completed notes

Client raised the question of the interest rate charged for the overdraft facility. Says that 1% over Wallers base rate is too expensive.

Wants us to reduce our margin to 0.25% above our Base Rate. Stated that with Key Commercial, Denavian pays only 0.20% above LIBOR. Client pointed out that in a recent credit rating Denavian was rated A1+ for short-term debt, and for long-term debt was rated AAA.

I promised to review the situation, and to get back to the Client. I feel that if we do not reduce our margin, it is very unlikely that the Client will keep the overdraft facility.

B4

Answers

1 overdraft facility; 2 overnight rate; 3 mark-up; 4 quite frankly; 5 LIBOR; 6 margin; 7 credit committee; 8 credit rating; 9 review; 10 confirm

B5

This task is in preparation for the short role play activity in B6.

Tapescript

PRESENTER: You are going to hear seven sentences from the meeting you have just listened to. Say something appropriate in reply to each of them, choosing from the list in the book.

- 1 Could we take up the question of the interest rate charged for this overdraft facility?
- 2 First of all, what is the base rate?
- 3 As you know, we work with a lot of banks and, quite frankly, one per cent is just too expensive for us.
- 4 What kind of reduction did you have in mind?

- 5 Zero point two five ...
- 6 There's no risk involved for you, so one per cent for the overdraft facility ... we'd really like you to review that.
- 7 I'll take it up when I get back to London and I'll get in touch with you. All right?

Answers

- 1 Yes, certainly.
- 2 It's our basic lending rate, which is 12 per cent just now.
- 3 I see.
- 4 Well, say 0.25 per cent above your base rate.
- 5 Yes, we feel that's about right.
- 6 OK, I've made a note of that.
- 7 Yes, do that.

B6

Conduct the activity as simultaneous pair work. Circulate and monitor performance. Conclude with any necessary feedback.

Section C C1

Before you listen to the second part of the conversation, you could ask your learners to summarize the conversation so far.

Tapescript

PRESENTER: Ulf and Clive continue their meeting.

CLIVE: OK, I see we've got custodian services on the agenda.

ULF: Custodian services, yeah. We have just, we have had a check up on the ... on all our banks. As you know, we work with different banks in different countries. We have custodian accounts in fifteen or sixteen countries, and we've checked up on the charges for this, and really it comes to an enormous amount. Five or six million Swedish kronor per year we've paid. So now we have started to negotiate with the different banks, and we see that it's too high in Wallers too. I guess it's based on a very low volume, as it was four or five years ago, but now it has increased enormously.

I see here that we pay two hundred pounds per fixed rate security transaction and fifty pounds per equity transaction, plus a flat-rate fee. That would, I guess that would cost us the countervalue of one million Swedish kronor per year.

CLIVE: A million kronor a year ...

ULF: Yeah. Perhaps you could consider reducing that. You must understand that we have increased enormously from the securities we had abroad five six years ago. The countervalue of that in Swedish kronor perhaps was one or two hundred million. And now it's eight billion Swedish kronor – the countervalue. So in that case your commissions seem out of line with the volume of business we do.

CLIVE: Yes, not all of that eight billion is with us of course, but I take your point. We'll sit down and have another look at it then, Ulf, and we'll get back to you within a couple of weeks or so. Overall, I was interested in how you saw your relationship with the bank.

ULF: Oh, yeah. I think it's very good. No real problems at all. No mistakes made by the ... well just a few, but everything can usually be straightened out over the phone. Sometimes reference numbers and the names of paying institutions are missing from the statements of our sterling account, but other than that there are no real problems. It's only that a couple of adjustments should be made concerning the overdraft facility and the custodian fees. Otherwise, no complaints.

PRESENTER: So if Ulf is successful in persuading the bank to adjust their terms concerning the overdraft facility and the custodian fees, he will have saved his company a lot of money each year.

Answers

- 1 Ulf wants the bank to reduce its charges for custodian services.
- 2 Clive agrees to think about the charges and to contact Ulf within a few weeks.
- 3 Very good, with no real problems. No complaints other than about charges made for the overdraft facility and custodian services.

C2

You could ask learners to do the report writing phase of the task in their own time rather than in class. A suggested short report is as follows:

Discussed the matter of custodian services. At present, Client pays estimated total annual costs of five or six million kronor per year for such services. Our charges amount to the countervalue of one million kronor, as Client pays £200 per fixed rate security transaction, and £50 per equity transaction, plus a flat rate fee. Client pointed out that its foreign securities abroad have increased from one or two hundred million kronor to eight billion kronor over recent years. I said we would look into our charges and get in touch again within a fortnight.

Client generally very pleased with their relationship with us. Reference numbers and names of paying institutions are sometimes missing from statements of sterling account. No complaints other than our charges for the overdraft facility and our custodian services.

C3

Answers

- 1 custodian services ... agenda; 2 an enormous amount; 3 negotiate; 4 security transaction; 5 equity transaction ... flat rate fee; 6 countervalue; 7 commissions; 8 take your point; 9 Overall; 10 straightened out; 11 adjustments; 12 complaints

C4

Other qualities that your learners may come up with include: *patience, assertiveness, sense of humour, ability to listen and understand the other person's point of view*. Once the ideas have been compared, you could try and achieve a consensus of opinion.

C5

Assign roles, and allow your learners a few minutes to absorb their briefings and ask you any question they may have. Set an appropriate time limit for the activity and, while the negotiations are taking place, circulate and monitor performance. Ask each group for brief details of their negotiated terms. Conclude with any necessary language feedback.

Section D D1

This is a quick reading task which introduces the text in D2.

Answer

Paragraph 3: *We are following up on ...*

D2

Here the learners are reading for specific information. There may be other points of detail that are not covered by the questions on page 43 which your learners want to focus on.

Answers

- 1 a) ✓; b) ✓; d) ✓
- 2 Interest is to be paid at the end of March, June, September and December.
- 3 The charges will be deducted by the bank from Denavian's account.
- 4 Approval from the Central Bank of Sweden.
- 5 The English legal system.
- 6 Until further notice. The bank will review the situation within six months.
- 7 Anyone whose signature appears on the company's authorized signature list.

D3

Divide the group into pairs, and allow a few minutes for them to answer the questions. If you notice a pair having difficulty, get them to use a matrix format, as shown below. Elicit oral answers to the questions, and ask a pair with the correct answers to explain how they deduced them. If the group is no more than five or six, you may prefer to ask them to work together, with one person listing information on the board. It is then best to use the matrix format mentioned.

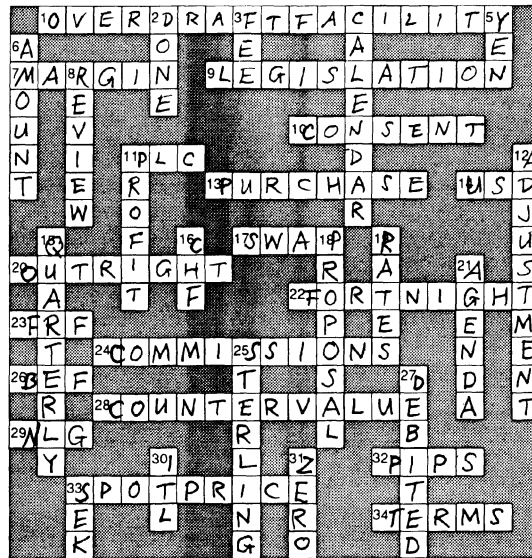
Answers

- 1 Bank C.
- 2 Bank A.

	Bank A	Bank B	Bank C
Standby L/C	1/2 %	Trust fund	x
Overdraft facility	x	£5 million	£2 million
Custodian account	£4 million	None	£2 million

D4

Completed crossword puzzle



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D5

This writing task would probably best be done in the learner's own time rather than in class.

Unit 5 A Presentation

Briefing

Companies trading internationally are exposed to considerable **foreign exchange risk**. If, for example, a French company knows that it will need \$2 million in three months' time to pay for imports from the USA, it can buy the dollars **forward**, i.e. at a rate specified now, thus eliminating the risk of an adverse movement in the exchange rate between the French franc and the US dollar. Unfortunately, buying dollars forward also eliminates the possibility of a favourable movement in exchange rates. Alternatively, the company could wait three months and then buy the dollars at the **spot rate**, i.e. the rate charged then for funds to be delivered two working days after the transaction. This way the company may get a better exchange rate but it also runs a risk, since the rate could be worse. Essentially, either course of action involves a calculated gamble on exchange rates.

To meet this situation, some banks developed and began to offer **currency options** in the early 1980s. Under the currency option, the customer pays a premium which gives them the right to demand purchase or sale of a specified currency at an agreed exchange rate up to an agreed date, but no obligation to do so. After the customer pays the premium, the bank sends out confirmation of the deal. If the exchange rate in three months' time, or whenever the expiration date is, is better than the one the customer has agreed on, they do not use the option, and instead deal at the market rate when they need to. Their cost has only been the premium for the option. Alternatively, if the rate is worse than the one they have agreed upon, they exercise the option, and thus suffer no loss due to the fall in exchange rates. The customer may exercise the option at any time up to and including the expiration date, for value spot. This, then, is the basic idea of the currency option.

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Section A **A1**

There are no right or wrong answers for this warm-up discussion activity.

A2

The purpose of this task is to prepare your learners for the presentation in **A3**. If you have the time, you could ask your learners to say where they would expect to hear or read those items they have put a cross against.

Answers

1 ✓; 2 ✗ – typical of a written guarantee; 3 ✓; 4 ✓; 5 ✓; 6 ✗ – typical of a formal notice; 7 ✓; 8 ✗ – appropriate to a letter; 9 ✓; 10 ✗ – likely to be heard in an informal social situation; 11 ✓ – used to bring out the main points and thus to summarize

A3

You may want your learners to listen first without having to make notes under the headings given. When they have made their notes, ask them to compare them with those of a partner.

Tapescript

PRESENTER: John Morley begins his presentation with a broad introduction to his topic.

JOHN: Good morning, I'm John Morley. I would like to say, first of all, thank you for coming. Perhaps we could begin by outlining what we're trying to do. We have got a number of services in the currency field and in the cash management field, which can be used singly and in combination, in a number of ways, some of which are quite complicated, and this is intended to be an opportunity for you to discuss with a number of subject experts that we've assembled here today, particular problems that you might have where we might be able to bring these services to bear, either singly or in combination. And the idea is to provide a little bit of formal and quite a lot of informal means for you to meet us, talk to us, and to get to know something about what we do and the way in which we do it.

One of the areas which is perhaps newer and where we have started to develop a lot of things over the last couple of years is concerning currency options. The currency options market is fairly new. Over the next few years we fully expect the currency options market may become a replacement for forward contracts for quite a large proportion of the sort of business that companies typically used to use forward contracts to cover. We think that the development of the currency option business is a very significant development in treasury services. We plan to be in the forefront of that. We have been the first bank to introduce all kinds of new services in this field, to have introduced the range of currencies we have, to have introduced the maturities that we have up to twelve months. We have therefore built up quite a substantial leadership position in currency options, and we believe that we are the bank in the world that is doing the most currency option business. We may well find that as time goes by perhaps larger banks, with a larger customer base than ours, the retail banks for instance, start to pick up these products and get them organized, that they may eventually overhaul us in volume. But for the medium-size to large company we believe that we will have a tailor-made element, a special service element, which will be important, and which we hope to be able to keep in the leadership position in this and one or two other new markets.

PRESENTER: John has now specified what he intends to talk about and has also made clear that his bank is the market leader in currency options.

Model notes

Currency options market: fairly new.

Forward contracts: may be replaced by currency options.

Treasury services: currency options an important development.

Leadership position: John's bank leaders in currency options.

Medium-size to large companies: John's bank offers a tailor-made, special service element.

A4

Ask your learners to justify their answers.

Answers

- 1 True.
- 2 False. The ways in which some of the services can be used are quite complicated
- 3 True.
- 4 False. He expects currency options to replace forward contracts, in other words to become *more* important than them.
- 5 True. In fact *the* first bank.
- 6 False. He believes that his bank does *more* than any other bank.
- 7 True.
- 8 True.

A5

You could ask your learners to prepare this activity out of class to save time and provide a more professional presentation.

Section B B1

Let the group look through the list before you play the cassette.

Tapescript

PRESENTER: John Morley continues his presentation with the help of slides.

JOHN: First of all, what is a currency option anyway, what are we talking about? And what we're talking about is that. Can everyone see that? What is an option? The option buyer has the right to demand purchase or sale of a specified currency, but no obligation to do so. The option writer, that's us, has the obligation to buy or sell at the strike price – that's the agreed exchange rate – on demand. On demand is normally for settlement, two days ahead, value spot. Like an ordinary foreign exchange deal.

An option which provides the right to buy a currency and sell the base currency is a call option. A put option provides the right to sell a currency and buy the base currency at the agreed rate.

So the option buyer's got the right to deal at the price he agreed, or he can let the option drop, or indeed he can sell it back to us. Effect of it is he can deal at the price he agreed with us or at the actual market rate, whichever is most attractive. So that's the essence of it. It's a perfectly straightforward initial idea.

We now have to look at why the option has a particular place for the commercial user. What is it that's unique about the option that gives it certain advantages which make it the best deal? These are some of them, and we'll come and discuss some of them in more detail.

A principal advantage is that with an option you have an insurance-like product – you cover yourself against downside risk. That is after all why most companies seek forward cover anyway – to kill off the downside risk. An option does that. It covers the downside but, unlike a forward contract, it doesn't simultaneously kill off the upside. The option – you kill off the downside risk and you hang on to the

upside. You have a known worst case. Once you've paid your option premium, no one can come and ask you for more money. There's no way it can cost you more than you spend on Day One. You've got a known worst case.

PRESENTER: John has explained what currency options are and has now begun specifying some of the reasons why they provide the best deal for the bank's corporate clients.

Answers

Items talked about:

What a currency option is.

Advantages of currency options.

B2

Find the relevant part of the continuation of the presentation on the cassette, set the tape counter and play it again. As with A3, get your learners to compare their notes after listening.

Answers

Option buyer has the right to *demand purchase or sale of a specified currency*.

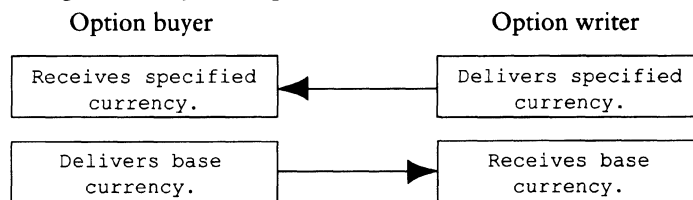
But no obligation to do so.

Option writer has the obligation to *buy or sell* at the price demanded.

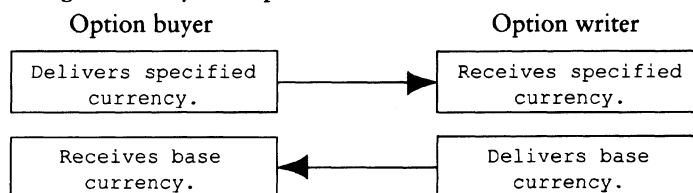
B3

Answers

1 Foreign Currency Call Option



2 Foreign Currency Put Option



B4

Two advantages referred to:

Cover downside; keep upside

Known worst case

B5

This task could be done in the learner's own time or at the beginning of the next class as revision.

Answers

1c; 2a (c = promissory note, d = debt); 3d (b = spot price, c = exchange rate); 4c; 5a; 6a; (d = dealer); 7d; 8a; 9d; 10c (b = allocation)

B6

This task prepares the learners for the activity in B7.

Answers

1 G; 2 I; 3 E; 4 J; 5 C; 6 D; 7 A; 8 B; 9 H; 10 F

B7

As with A5, you could ask your learners to prepare this short presentation in their own time.

Section C C1**Tapescript**

PRESENTER: John continues his presentation.

JOHN: An option is particularly useful for covering contingent cash flows, a cash flow that might be there or it might not. Tenders for instance, where you might get the order, in which case you've got a currency risk, but you might not. You can't cover that kind of risk with a forward contract because you've got the forward contract whether or not you get the underlying commercial deal. The option, you can walk away from.

Range of strike prices: with a forward contract you have to deal at the market rate now. You can't elect to deal at some other rate. With the option you can choose, within reason, any exchange rate you like to deal at, but the premium will reflect the amount of risk you're prepared to take yourself. Most companies reckon they can live with a few cents shift of an exchange rate. What they can't live with is ten cents, twenty cents. So if you say 'OK, I can live with the first few cents movement, so I'll deal at a rate a few cents away from the market now', then the premium's going to be an awful lot cheaper. But it's going to be higher if you pick an exchange rate away from the market rate in your favour. So you can vary the premium, depending on how much of the exchange risk you're prepared to take on board yourselves.

Finally, profit lock, by which I mean if you are long in dollars, for instance, and the dollar has been going up and up, you might start getting worried that the dollar might go down. But you might not be sure that the dollar rise is over. You can take out an option to sell the dollars at the current level. That prevents the dollar getting any worse for you than it is now, but on the other hand if it goes up, effectively you have locked in that amount of profit. If it goes up, you can continue to collect. And

fund managers might find this profit lock effect a useful one. You can lock up the profit you've got so far, it can't get any worse, and it might just get better.

Those are some things nearly all of which you can do with an option and obtain a benefit which you cannot get any other way. It's not just that you could get it dearer some other way, it's that you can't even get it any other way. So here are a number of situations described so far where you actually have something that is providing some unique advantages.

If we get down to something a little bit more practical, I've got here a situation where we ...

PRESENTER: So John has given a general introduction to currency options and their advantages, before now moving on to discuss some specific cases which illustrate the points he has made. But there we must leave his presentation.

Answers

Advantages	
● Known worst case	2
● Range of strike prices	5
● Cover downside: keep upside	1
● Profit lock	4
● Contingent cash flows	3

C2

Model notes

Contingent cash flows: options useful to cover these, e.g. tenders.

Range of strike prices: choose the rate to deal at. Rate you choose decides the premium.

Profit lock: stops a rate going down, but not up. Useful for fund managers.

C3

Replay this part of the presentation and ask the group to tell you to stop the cassette when the actual words are spoken.

Answers

1 particularly; 2 Tenders; 3 strike prices; 4 elect; 5 shift; 6 vary the premium; 7 long in dollars; 8 the current level; 9 profit; 10 fund managers; 11 a benefit

C4

Allow between five and ten minutes for preparation. The learners may make brief notes, but no more. If the group is a large one, divide into smaller groups, or even pairs, for the presentations themselves. Do not let presentations last for more than

five minutes, before you change presenters. Ask the listeners to tick those techniques which the presenter uses, and to give feedback on this immediately after the end of the presentation. Circulate amongst the groups or pairs, and monitor performance.

Section D **D1**

Give the group five minutes in which to look through the letter, and to match the ideas with the paragraphs and to provide the answers to the question on page 57.

Answers

1

Paragraph 1: I Stating the purpose of writing.

Paragraph 2: G General introduction of a service.

Paragraph 3: F Saying who should use a service and when.

Paragraph 4: H Explaining how a service works.

Paragraph 5: C Offering a facility.

Paragraph 6: B Specifying terms and conditions.

Paragraph 7: A Stating the price of a service.

Paragraph 8: D Offering to state the price of a specific service.

Paragraph 9: E Generally inviting business and offering service.

2

Main topics:

The bank's arbitrage operation service.

A sterling current account for the customer.

Use of a currency option for a takeover.

D2

Answers

2 Bills are discounted in the London discount market.

4 Bank enters into a forward exchange contract with the customer.

1 Bank accepts sterling bills from customer.

6 An overall interest rate is calculated on the basis of all the other rates.

5 The loan matures and the customer repays the agreed currency amount.

3 Net proceeds are exchanged for the currency required, at the spot rate.

D3

This can either be done in class or in the learners' own time.

Unit 6 Trade finance

Briefing

The growth in multinational corporations manufacturing and trading on a worldwide basis has led to the growth in the overseas operations of major banks over the last twenty years. Banking may be said to be the one industry on which all others depend for financial services at one time or another, and banks play a key role in the import and export trade in particular. In 1981 US companies exported goods with a total value of USD 234 thousand million. In the same year the American market imported merchandise worth USD 261 thousand million. Banks provided a considerable amount of money to finance this trade, and in 1980 foreign earnings accounted for 47.3 per cent of the consolidated earnings of the ten biggest US commercial banks.

Letters of credit are the most frequently used international service provided by banks for customers involved in international trade. Such a document guarantees that the seller (exporter) will be paid provided the terms of the contract are met. At the same time, it protects the buyer (importer) by guaranteeing that payment will not be made until the contract is fulfilled.

Letters of credit can be **revocable** or **irrevocable**, but the latter is most usual since it stipulates that no changes may be made without the consent of both the buyer and seller.

They may also be issued on a time or sight basis. The former calls for immediate payment against the documents evidencing the shipment of goods; the latter specifies a date by which payment must be made. The letter of credit may also be **confirmed**, which means that the exporter's bank undertakes to pay the exporter for the goods once the correct documents are received.

Procedures differ according to the type of credit, but let us assume, for example, that a company in Australia wants to import goods from a company in Basle, Switzerland. As well as requiring credit, the Australian company wants to be sure that the contract will be fulfilled. The Swiss company wants to know that it will be paid for the goods.

The Australian company therefore contacts its local bank and requests, for example, an irrevocable sight letter of credit in favour of the Swiss exporter. The application will specify the documents required as proof that the shipment of goods has been made. The Australian bank notifies a bank in Switzerland of the credit, and is then known as the **issuing** or opening bank. The Swiss bank contacts the exporter in Basle and is then known as the **advising** bank. The exporter, i.e. the seller, is now the beneficiary of the letter of credit, and will receive payment provided the terms of the contract are met.

When the goods have been shipped, the company in Basle presents the documents to its bank, which may or may not be the advising bank, and the bank will make

payment immediately. This it can do with confidence, since it knows that the issuing bank must make payment. Funds then flow from the issuing bank in Australia to the paying bank in Switzerland, as reimbursement for the money paid by the Swiss bank to the seller in Basle. The Australian bank then recovers this money from the account of its customer, the importer.

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Section A **A1**

You could ask your learners to do a little research before the class meets if you are not sure whether they will have the information about exports at their fingertips.

A2

Allow two or three minutes for the learners to read through the survey. Then answer any questions that they might have concerning words or abbreviations. Next ask them to number the countries in order of preference for the bank, before discussing their answers with those of a partner. Monitor the simultaneous pair discussions and give any necessary feedback. Conclude with a brief whole group discussion to see if there is any consensus as to the preferences.

Suggested order of preference

1 Newlandia; 2 Northland; 3 Eastland; 4 Southlasia; 5 Westina

A3

Ask the learners to read the two questions before playing the cassette.

Tapescript

PRESENTER: Roy Meadows and Christine Stannard explain their trade finance services to a potential customer, Peter Baker.

ROY: As you know, we're very much involved with the very large UK corporates involved with international trade, the multinational companies. What we're doing, fundamentally, is actively marketing to these large corporates, plus their subsidiaries, and hopefully developing a relationship to ensure that we service all their needs. A lot of the time of course is advice-giving, problem-solving rather than always selling a service.

PETER: Yes. So what sort of problem, what sort of advice? What, what's a typical problem that you would expect a customer to come to you about?

ROY: Well, Christine had one ... yes, maybe ... just recently with a potential export order to France. Perhaps you could run through that, Christine?

CHRISTINE: Oh, yeah. Yes, that was a contract that was signed to supply some machinery to a company in France.

PETER: Uh huh.

CHRISTINE: And the contract was originally drawn in sterling, but the French buyers were asking if the UK exporters could take the exchange risk in some way for them, because they are not permitted to cover forward for any length of time. They would have to buy the necessary sterling to pay the bill.

PETER: I see.

- CHRISTINE: So we got some quotes from our Foreign Exchange World Money Centre, up to fifteen months ahead I think it was.
- ROY: That's right.
- CHRISTINE: Yeah, whereby we would buy currency from the customer, our customer that is, and he could then work out his price in French francs rather than in sterling.
- PETER: Right.
- CHRISTINE: And an alternative to that was, was forfeiting, which is a, which is a method of finance where the bank buys Bills of Exchange which have been accepted by the exporter, and possibly guaranteed by a bank locally. The bank then buys these Bills of Exchange at a given discount rate without recourse back to the customer. That's the sort of thing we're involved in.
- PETER: Fine.
- ROY: Yes and other things, of course. We handle all sorts of letters of credit, advise whether they should be irrevocable, whether they should be confirmed, whether we would recommend them in certain circumstances, and we deal with documentary collections and so on. I mean, it can happen that an exporter like yourself ships goods to a buyer abroad only to find two or three weeks later that they've either got to wait about two years before they get their money because of that country's exchange control problems or foreign exchange shortage, or else the buyer may not be quite as creditworthy as they thought. We always say exporting's easy; it's getting paid that's the hard part. And that's where we can help you.
- PRESENTER: So one function of Roy's division is to ensure that its customers receive payment for the goods that they export.

Answers

- 1 In broad terms.
- 2 The past.

A4

Points covered

Experience in helping large companies
 Advice
 Banks' services covering their exchange risk
 Forfeiting
 Documentary credits
 Documentary collections

A5

Replay the cassette and ask the group to tell you to stop the machine when an answer is given.

Answers

1 UK corporates; 2 multinational companies; 3 subsidiaries; 4 potential; 5 contract ... sterling; 6 cover forward; 7 bill; 8 quotes; 9 without recourse; 10 letters of credit; 11 irrevocable; 12 be confirmed; 13 documentary collections

Section B **B1**

Tell the learners to read the text quickly first to make their headline choice. Then ask them to read the text again to do the space-filling task.

Answers

- 1 Setback for growth
 2 1 study; 2 grow; 3 forecasts; 4 deficit; 5 halt; 6 stringent; 7 postponed;
 8 venture; 9 currently; 10 levels

B2

This is a warm-up activity for the listening which follows.

Answers

- 1 X – typical of a written agreement; 2 ✓; 3 ✓; 4 ✓; 5 X – appropriate to a written agreement; 6 ✓; 7 ✓; 8 ✓; 9 X – typical of a written agreement; 10 ✓; 11 ✓; 12 ✓; 13 ✓; 14 X – appropriate to the written language; 15 ✓

B3**Tapescript**

PRESENTER: Kai Larsen meets Ken Chiswanda.

KEN: Our banks have had a correspondent relationship for eight years now, I think it is, and as this is the first time that you and I have met, I was interested to know how you see the relationship, and whether you have any questions about the mechanics of what goes on.

KAI: Yes, we have one main point of concern, certainly, and that is payments due under documentary credits.

KEN: Documentary credits?

KAI: Yes. Up until about a year ago there was an average delay in payment of confirmed documentary credits of between fifty to sixty days. Over the last year we've noticed that this delay has risen to between one hundred and ten and one hundred and twenty days, even though the credits are payable, in fact, at sight.

KEN: Yes, there are obviously delays. We compensate you of course by paying market-rate interest on the full amount due for a period of twenty-five days. We meet with certain difficulties, I think it's fair to say, with some of the routines laid down by our Central Bank. For example, we can issue documentary credits, but then to be able to honour them, we need the permission of the Central Bank.

KAI: Yes, I see.

KEN: Firstly, a buyer in Southasia needs an import licence from the Ministry of Commerce before he can import anything. After he's got that, he then has to complete a special form before the necessary foreign exchange can be issued. Foreign exchange is then only available if the goods have been examined prior to shipment by an approved inspection company.

Now the Government changed inspection companies a year ago. They ended the monopoly of Palmeira and Queen and gave the job to six companies all over the world. The new procedures weren't clear to sellers for a couple of months or so, and consequently during the interim, traders stockpiled shipments. Then goods all

arrived in Soutlasia at the same time, causing a backlog, and that's the main reason for the delay in payments.

KAI: OK, I see. But unfortunately we're still left with a shortfall in interest on the nine hundred and fifty thousand Swiss francs that are outstanding on the five credits that are unpaid. I believe we sent you an interest claim six weeks ago.

KEN: Ah, by letter or by telex?

KAI: I can't say offhand.

KEN: No, but as we haven't responded, I suspect it must have been by telex. What I'd like to ask you to do, if I may, is to send me a separate letter for each claim, giving me the full details. I'll then check things up and try to expedite matters for you.

KAI: OK. Thank you.

PRESENTER: So now perhaps Kai's bank will be able to obtain the money that is owing to it.

Answer

1 routine matters

B4

You may want to pause the cassette at the appropriate points to allow the learners to write their notes under the headings.

Model notes

Kai's points

Average delay in payment of confirmed documentary credits of 110-120 days.
Shortfall in interest on 950,000 Swiss francs outstanding on the 5 unpaid credits.
Sent an interest claim 6 weeks ago.

Ken's points

Compensation in form of interest on the full amount for 25 days.
Problems with Central Bank.
New procedures have caused a backlog, which is the main reason for the delay in payments.

Suggested solution(s)

Send separate letter for each claim, giving full details.

B5

You could ask your learners to do this task without hearing the meeting again. They could then listen and check if they have the right answer.

Answers

1 a correspondent relationship; 2 mechanics of what goes on; 3 main point of concern; 4 at sight; 5 compensate you; 6 routines; 7 honour them; 8 licence; 9 prior to; 10 monopoly; 11 consequently ... interim; 12 backlog; 13 a shortfall; 14 outstanding; 15 expedite matters

B6

This task prepares the learners for the role play activity in B7 by focussing their attention on exponents which they could use in their discussions.

Answers

1 D; 2 G; 3 B; 4 F; 5 H; 6 E; 7 A; 8 C

B7

Allow the learners a minute or so to work out what they are going to say. Conduct the activity as simultaneous pair discussions. Monitor performance, and conclude with any necessary feedback.

Section C C1

This task introduces some of the key vocabulary of the continuation of the meeting which follows. You could ask your learners to prepare their answers in their own time before coming to the class.

Answers

1 M; 2 N; 3 B; 4 E; 5 P; 6 K; 7 H; 8 G; 9 J; 10 Q; 11 F; 12 O; 13 A; 14 C; 15 I; 16 D; 17 L

C2**Tapescript**

- PRESENTER: Kai and Ken now go through some final points.
- KEN: At present, I believe that your bank has established a line for confirmation of credits for us of up to two million US dollars.
- KAI: Yes, that's right.
- KEN: We were wondering if this sum could be increased.
- KAI: To?
- KEN: Say to three or four million dollars?
- KAI: Yes, well of course the line isn't fully utilized at the moment and to the best of my knowledge it never has been. As such I'm not really sure as to the need to increase it further, but if you find there is a concrete need in the future, then perhaps you could let us know, and then we could always consider increasing the line.
- KEN: Good, thank you. Another point I'd like to bring up is that we need to issue documentary credits in favour of a beneficiary in Sweden. We would be very pleased if you could consider acting as confirming bank.
- KAI: I'm sorry, I'm afraid we can't. The regulations laid down by our own Central Bank prohibit us from acting for beneficiaries outside the country.
- KEN: Oh I see. I didn't realize. That's a pity.
- KAI: Yes.
- KEN: OK. I think that about concludes my list of points. Just to sum up the situation, our domestic politics are more settled than in recent years, and this is obviously going to lead to improved economic conditions in the future. Our oil receipts fluctuate somewhat, and since the oil will obviously one day run out, we have to build up our other industries. So we're beginning to import machinery on a large scale, so we can begin our own production. And certainly that's something that could be very interesting for you in the future, that is letters of credit relating to machinery, because if the federal authorities have agreed to issue the relevant licence, you can be sure that the currency will be made available to honour the

debts.

KAI: Mm, I see. Can you see any delays in reimbursement in the future?

KEN: No, not after we've cleared the arrears, and not if the regulations are complied with. The documents must be in order: commercial invoices, bills of lading, insurance certificates, and certificates of origin. I think it will be safe enough for you to add your confirmation to the credits.

KAI: OK, fine. I think we've covered everything now, haven't we?

KEN: Yes, I think so. It was good of you to see me.

KAI: A pleasure. Thank you for coming in.

PRESENTER: Ken thinks that the economic conditions in his country are likely to improve, but this fact does not seem to have helped him to increase the level of business with Kai's bank.

Answers

Basically two points: a line for confirmation of credits, and the issue of documentary credits in favour of a beneficiary in Sweden. A third point arises at the end. This concerns delays in reimbursements in the future but this is not talked about in detail.

C3

As with B4, you may want to pause the cassette to allow the learners time to write their notes.

Model notes

Proposals	Response
Increase line for confirmation of credits from 2 to 3 or 4 million USD.	No need, as line has never been fully utilized.
Issue documentry credits in favour of beneficiary in Sweden.	Can't because of Central Bank regulations.
Concluding points	
Domestic politics of Ken's country more settled, and will lead to improved economic conditions. Beginning to import machinery on a large scale.	
Safe for Kai's bank to add confirmation to credits, so long as regulations are complied with.	

C4

This role play task involves negotiating and it may be that you would want to discuss the negotiating stances with the representatives of the two banks. You may also want to have the learners listen to the cassette again to assess the negotiating performance of Ken and Kai and to pick out any useful exponents from their discussions.

Circulate and monitor performance. Do not let the activity run for much more than ten minutes. Ask each group for brief details of their preliminary terms. Conclude with any necessary language feedback.

D1

You should allow the learners up to ten minutes to read the letter and to transfer the necessary information to the documentary credit form. Circulate, monitoring and assisting as necessary. Let the learners check their answers with those of a partner, before you briefly check answers orally with the group as a whole.

Completed form

NAME OF ISSUING BANK Abbotville Bank Southlasia		IRREVOCABLE DOCUMENTARY CREDIT Number: DW 1924 Date: 29 April 1991	
APPLICANT Hoglund Trading Co. Ltd. Box 5504 Furness Southlasia		BENEFICIARY Morley Knight Ltd. 21 Paradise St Warrington	
ADVISING BANK Metropolitan and Provincial Bank PLC 100 Corporation St Birmingham B1 2PS		AMOUNT GBP 22, 629. Partial shipments allowed <input type="checkbox"/> not allowed <input checked="" type="checkbox"/>	
Shipment/dispatch from Warrington For transportation to Furness		Transshipment allowed <input type="checkbox"/> not allowed <input checked="" type="checkbox"/> Date of expiry 30 June 1991	
<p>We have issued the documentary credit as detailed below. We request you to notify the said credit to the beneficiary</p> <p><input type="checkbox"/> without adding your confirmation. <input checked="" type="checkbox"/> adding your confirmation.</p>			

D2

This task provides the basis for a detailed look at the contents of the letter.

Answers

- 1 a) Four; b) One; c) Three; d) Two
- 2 Within 60 days of the necessary documents being received by the Metropolitan and Provincial Bank.
- 3 Five engines, model number PV-37. (PCS = pieces).
- 4 The buyer pays, as these costs are included in the contract sum. Shipment is c.i.f. (cost, insurance, freight).

- 5 One and one only. Partial shipment is not allowed.
- 6 No. Transshipment is not permitted.
- 7 Approximately eight weeks (i.e. from 1 May to 30 June).
- 8 The date and number of the credit.
- 9 The credit and any amendments to it.
- 10 Morley Knight Ltd.

D3

This task could well be done in the learners' own time. If you do it in class, limit it to ten minutes, circulating and giving assistance as necessary. You could select a couple of the best letters for the writers to read aloud to the group.

D4

Put your learners into pairs or groups of three to do this problem-solving activity. If the group is no more than five or six, you may prefer to ask them to work together, with one person listing information on the board. It is then best to use the matrix format.

Answers

- 1 Bank B. 2 Bank C. 3 Bank A.

	Bank A	Bank B	Bank C
Payments delay	30 days	x	50 days
Line	\$2 million	\$3 million	x
National exports	x	Machinery	Coal

D5

Crossword puzzle solution



Unit 7 Financial news

Briefing

Modern information technology has led to news being transmitted worldwide quicker than ever before. Time differences around the world mean that financial news is being made twenty-four hours a day, and it is this barrage of readily accessible information that serves as a basis for many of the business decisions that are made concerning international banking and financing. Techniques of analysis are applied to information to determine its implications and to try to discern trends in the future.

Many prices are determined by a complex interaction of factors. With regard to currencies, it may be said that one factor governing prices is the interaction of supply and demand. Interest rates prevailing in different countries affect currency exchange rates. If interest rates rise in the UK for example, US investors may move funds to the UK to earn higher interest income. They will then sell dollars for sterling, and the demand for sterling will rise, while at the same time the supply of dollars will rise too. The dollar will therefore fall in value, while the price of sterling will rise.

Trade between countries may also affect currency rates. If, say, Japanese exports to Germany rise, and German exports to Japan remain the same, there will be an increase in the supply of Deutschmarks as Japanese exporters sell them for dollars. This will normally increase the value of the Yen in relation to Deutschmarks.

Government intervention may also affect exchange rates. If sterling is weak, for instance, the Bank of England may enter the market to buy sterling with some of its reserves of other currencies. This will reduce the supply of sterling, thereby increasing its value.

Stock market prices in a particular country are often affected by stock market prices elsewhere in the world, and markets tend to move together, as indicated by the worldwide crash in the autumn of 1987. The share price of any one company will obviously tend to be influenced by the financial performance of the company, details of which are released at various times during the financial year.

The factor of supply and demand mentioned earlier will also tend to affect commodity prices. A bad coffee harvest in Brazil will increase the price of coffee because demand will exceed supply. The over-production of oil, on the other hand, will lead to a fall in the price of the commodity, since there will be a glut of oil available on the market.

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Section A **A1**

This short reading activity is a warm-up for the listening which follows. It checks some of the key vocabulary.

Answers

1 weaker; 2 slipped; 3 recovered; 4 currencies; 5 exception; 6 ahead; 7 firmed

A2

Information about the dollar only takes up a part of the news report. You could ask your learners to note down the other topic areas mentioned, e.g. the survey.

Tapescript

PRESENTER: The financial news headlines, and more detailed news of the currency markets.
NEWSREADER: Here is the Financial News, read by Pauline Andrews. The dollar recovered after a weak start. The pound strengthened. Gold was slightly stronger, and silver slightly weaker. London share prices were steady, but New York prices drifted down.

A survey published in London yesterday states that over the past five years trading on the world's foreign exchanges has more than doubled in size. It estimates that Forex volume now stands at almost fifty-five thousand billion dollars a year. London remains the leading centre, with nearly fifty billion dollars traded here every day. Despite increasing competition from the Far Eastern market, New York is in second place and Zurich third.

In the European foreign exchanges the dollar closed yesterday little changed, after recovering from early weakness. Trading was thin, with dealers waiting for US economic indicators due on Friday, when US consumer prices and durable goods orders will be released. In London the dollar closed at two marks sixty-three point seven pfennigs, and later in New York at two marks sixty-three point nine. That's a gain of two and three quarters on the previous close there.

In Tokyo today the dollar slipped back a little, ending at two hundred and fifteen point eight five yen, against a previous close of two hundred and sixteen point two. Some selling by the Bank of Japan was noted, but the dollar was helped by the covering of short positions.

The pound yesterday was stronger against most currencies, aided by firmer spot oil prices.

In the latest currency prices in London this morning, the pound is at one dollar forty-four point five cents, that's one and a quarter cents up on the closing price yesterday. The German mark is two marks sixty-three point eight pfennigs to the dollar. The Swiss franc is unchanged at two francs sixteen point six. The French franc is eight francs forty, and the Dutch guilder is weaker at two guilders ninety-seven point five. The Japanese yen is unchanged at two hundred and fifteen point eight five yen to the dollar.

PRESENTER: So now we know about the currency exchange rates for the day in question.

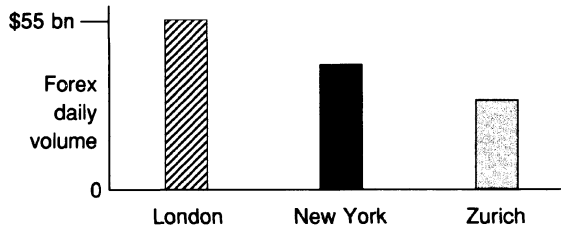
Answer

A quiet day, neither good nor bad.

A3

To do this task, you only need to play the first part of the news report.

Completed chart



A4

As with A3, you don't need to play the whole news report to get the information to complete the grid.

Completed grid

London close of business yesterday	New York close of business yesterday	Tokyo close of business today	London this morning
2.63.70 DEM	2.63.90 DEM	215.85 JPY	2.63.80 DEM

A5

When they have done this task, get your learners to compare answers to give them an opportunity to practise saying these numbers.

Answers

GBP	USD	USD	USD	USD	USD
USD	DEM	CHF	FRF	NLG	JPY
1.44.5	263.8	2.16.6	8.40	2.97.5	215.85

A6

This task could be done as follow-up at home and checked quickly at the beginning of the next class.

Answers

1b (a = plunged, plummeted); 2a (b = forecast, c = specification); 3d (a = loan); 4c; 5c (a = consumer prices, b = currency flow, d = US total receivables); 6b (c = export prices, d = US dollar exchange rate); 7a (b = non-durable orders, d = export orders); 8c; 9b (c = loss; d = constant); 10a; 11a (b = covering long positions, c = foreign exchange dealing); 12a

A7

Conduct the activity as a whole group discussion for a couple of minutes or so.

Section B **B1**

As with **A1**, the short reading task introduces some of the important vocabulary of the news report which follows.

Answers

1 busy; 2 fall; 3 The possibility; 4 advances; 5 increase; 6 Leading; 7 slightly; 8 falling; 9 generally; 10 varied

B2

The learners should hear the whole of this part of the news report to answer the two questions.

Tapescript

PRESENTER: Now we will hear news relating to companies and stock markets.

NEWSREADER: The company headlines today are that Lewhill is to open a thirty million pound production centre in Birmingham. It will employ around fifteen hundred people. Welby Engines have landed a twenty-five million pound order from Air Texas, and the latest bid for Basterfields by the Canadian giant Garvin has been rejected.

On the interim results front, Luxdon's third quarter profit of three hundred thousand pounds came as a setback, after first half profits of two and a half million pounds. Another company reporting was Fisher Hogg, who pleased the market, however, with a fifty per cent profits rise compared with last quarter.

On the London stock market yesterday, shares remained close to last week's record highs. Financial and discount houses were a firm sector, with United Alverson advancing twenty pence to seven pounds sixty-eight. Banks too made further gains, and Key Commerce rose twelve to six seventy-six.

Among the other features, Ainscough and Lee were up nine at four thirty-seven on bid hopes, and Sheldon jumped thirty to two forty-five on their Monday sale of their Quinton stake. Hale and Owen stuck at two oh four, despite reporting treble interim profits which in fact conceal a setback, if one disregards the proceeds from the sale and leaseback of their Birmingham headquarters. Berry Sugar were down eight at one seventy one, on doubts about the commodity price.

On Wall Street on Tuesday, leading stocks were moderately firmer, though the market was mixed. Falling stocks outnumbered rising ones by seven hundred and ninety-eight to seven hundred and twenty-eight, on a moderate volume of one hundred and one million shares. Bonds were strong.

In Tokyo today there were heavy falls for many shares, especially among the market leaders. Hong Kong shares slipped back a little. In Australia, shares fell sharply across the board although trading was subdued.

PRESENTER: Some specific news about British companies and share prices there, followed by stock market news from other parts of the world.

Answers

1 Five: Lewhill, Welby Engines, Air Texas, Basterfields, Garvin
2 Five: London, Wall Street, Tokyo, Hong Kong, Australia

B3

The learners should again hear the whole of this part of the news report to answer the questions.

Answers

- 1 False. The new factory in Birmingham will employ approximately this number of people.
- 2 False. The order is worth £25 million.
- 3 False. Garvin's bid for Basterfield has been turned down.
- 4 False. Prices remained close to last week's record highs.
- 5 True
- 6 True.
- 7 False. 798 stocks fell, and 728 rose.
- 8 False. There were heavy falls in Tokyo, whereas Hong Kong shares slipped back a little.
- 9 True.
- 10 False. Trading was subdued.

B4**Answers**

Hale and Owen: Chart A

Fisher Hogg: Chart C

Luxdon: Chart B

B5**Completed table**

Company	Price £	+ or -
United Alverson	7.68	+.20
Key Commerce	6.76	+.12
Ainscough and Lee	4.37	+.09
Sheldon	2.45	+.30
Hale and Owen	2.04	0
Berry Sugar	1.71	-.08

B6

This task could be done out of class with a quick check against the cassette at the beginning of the next class.

Answers

- 1 a £30 million production centre; 2 landed; 3 bid ... Canadian giant ... rejected; 4 On the interim results front ... setback; 5 last quarter; 6 shares; 7 Financial and discount houses ... a firm sector; 8 bid hopes; 9 Quinton stake;

10 conceal a setback ... disregards ... proceeds ... sale and leaseback of their Birmingham headquarters; 11 doubts ... commodity price; 12 leading stocks were moderately firmer; 13 Bonds; 14 shares fell sharply across the board ... trading was subdued

Section C C1

This reading task checks some of the the vocabulary of the last part of the news report.

Answers

1 volumes; 2 ranges; 3 traded; 4 down; 5 metals; 6 fell; 7 Soft; 8 virtually; 9 awaiting

C2

Tapescript

PRESENTER: Finally, we hear news from the commodity markets.

NEWSREADER: In the London bullion market yesterday, the price of gold was steady. After opening in the morning at three hundred and twenty-four dollars twenty-five cents an ounce, it ended up just seventy-five cents at three hundred and twenty-five dollars exactly.

New York gold prices were fractionally stronger, edging up twenty cents to close at three hundred and twenty-four dollars seventy. In Hong Kong today, gold opened at three hundred and twenty-four dollars forty-five cents. That's just fifteen cents above last night's close.

Silver in London yesterday slipped slightly, the metal ending four and a half pence below the previous close, with spot at four hundred and twenty-eight pence, and three months at four hundred and thirty-eight point five. New York silver futures were little changed, with November silver down just half a cent at six hundred and nine point five cents an ounce. In London this morning, spot silver started trading at six hundred and ten cents an ounce – that's around four hundred and twenty seven pence an ounce.

On the London metal exchange yesterday, base metals drifted lower in reaction to stronger sterling. The settlement prices were copper nine hundred and fifty-eight, tin eight thousand four hundred and thirty-seven, lead two hundred and seventy-one point five, zinc four hundred and twenty, aluminium six hundred and fifty-nine point five, and nickel two thousand eight hundred and fifty-five.

Among the softs, cocoa bounced after its recent fall, and coffee was strong.

The London daily price for raw sugar fell by five point five dollars to one hundred and thirty two dollars a ton. Sugar futures were steady, but then suffered a late slide, with all contracts giving up around ten dollars a ton.

In New York, cotton was easier. In Chicago, grain futures were mainly moderately lower. November wheat gave up two at three hundred and thirty-four and a half cents a bushel, though December corn was up three quarters at two hundred and twenty-five and three quarters.

PRESENTER: So now we've heard news about the currency markets, the stock markets, and, finally, the commodity markets.

Answers

The commodities mentioned in the news report are: gold, silver, copper, tin, zinc, aluminium, nickel, cocoa, coffee, sugar, cotton, wheat and December corn.

C3

Replay the first part of the commodities news.

Completed grid

London opening yesterday	London closing yesterday	New York opening yesterday	New York closing yesterday	Hong Kong opening today	Hong Kong closing yesterday
\$ 324.25	\$ 325.00	\$ 324.50	\$ 324.70	\$ 324.45	\$ 324.30

C4

Replay the second part of the commodities news.

Completed grid

London silver prices	
Spot price, previous close:	432.5 pence
Spot price, today's close:	428 pence
Three months' price:	438.5 pence

Note

The exchange rate used by the news reader is USD 1= GBP 0.70. This can be worked out because we hear that the New York price is 610 cents an ounce. This, says the newsreader, is equivalent to 427 pence an ounce. Thus USD 6.10 = GBP 4.27, and therefore USD 1= GBP 0.70.

C5

Replay the third part of the commodities news.

Completed grid

Base metal	London settlement prices yesterday
Tin	8,437
Nickel	2,855
Copper	958
Aluminium	659.5
Zinc	420
Lead	271.5

C6**Answers**

- 2 is the most accurate summary.
- 1 is inaccurate, because the November wheat price is wrong.
- 3 is also inaccurate, because it wrongly states that sugar futures were steady and New York cotton prices unchanged.

C7

Replay the cassette. Stop every time an answer is apparent.

Answers

- 1 bullion market; 2 fractionally stronger, edging up; 3 spot; 4 three months;
- 5 New York silver futures; 6 base metals ... stronger sterling; 7 softs ... bounced;
- 8 Sugar futures; 9 was easier; 10 December corn

C8

Conduct the activity as a whole group discussion for a couple of minutes or so.

Section D D1

Ask the group to read the text quickly to choose the best headline.

Best headline

Bad winter for RJC Bank?

D2

Allow more time to read the text again, and to number the events in the order in which they happened.

Answers

- 1 RJC share prices reach a high of \$44.25. (*in 1990*)
- 2 Lee Dobbs resigns as chairman of RJC Bank. (*earlier this year*)
- 3 Jim Kent appointed chief executive of RJC Bank. (*following the resignation of Lee Dobbs*)
- 4 RJC sells its credit card business for \$1 billion. (*sold in May, as one of Kent's first moves to improve the capital base of the bank*)
- 5 Annual General Meeting of RJC Bank. (*early last month*)
- 6 Brown McCoy Corporation defaults on a \$9 million repayment. (*at the end of last month*)
- 7 RJC shares reach their lowest ever price of \$10. (*last Tuesday*)
- 8 RJC share prices climb \$1.275 to reach \$12.075. (*last Friday*)
- 9 Thomas Ainscough Corporation files for reorganization. (*only this week*)

D3

Make sure your learners justify their answers.

Answers

- 1 True.
- 2 True. The capitalization, i.e. the value of the number of shares multiplied by the market value of a share, is \$420 million, at the same time as the share value is \$10 per share.
- 3 True. The price at the close on Friday was \$12.075, and as the price rose \$1.275 on that day, the opening share price must have been \$10.80.
- 4 False. Non-performing loans will cost \$40 million this year, if they neither rise nor fall. The rise in net credit losses is much bigger.
- 5 True. They rose by \$450 million during the first half of 1991, to \$2.1 billion. Therefore they amounted to \$1.6 billion at the end of 1990.
- 6 True.
- 7 False. The article was written during the third or fourth quarter of 1991, as it contains figures relating to the first half of the year.
- 8 True. They rose from \$140.3 million to \$269 million dollars.

D4

This exercise is suitable as a homework assignment. If you do it in class, discuss what makes the other two alternatives less acceptable.

Answers

- 1 is the best summary.
- 2 is inaccurate in that non-performing loans will cost the bank \$40 million this year provided that they neither rise nor fall. Furthermore, we are told that 56 per cent of the bank's loan portfolio is outside the USA, but there is no evidence that all these loans are to Latin America.
- 3 is inaccurate in that non-performing loans rose by \$450 million during the first half of the year, not by \$410 million.

D5

Divide the learners into small groups. Give each group two items of financial news cut from newspapers or magazines, concerning, for example, company news, currency movements, or stock market news. The groups should use the information to work out a report, or to conduct an interview, e.g. with the managing director of one of the companies. If you can, either record on audio or video the group presentations. You may prefer to play them back and discuss them at a later date, depending on when you meet again, rather than go through them now.

Unit 8 Projects

Briefing

The provision of credit is one of the primary functions of a bank. It allows the borrower to finance major projects which would have otherwise not been possible. A company building a new production plant or a country building a new dam both need to raise very large sums of money in order to get the job done. The provision of funds by banks for specific projects is thus an important part of international financing.

For practical or legal reasons, a bank may decide that a particular loan is too large to handle alone. Banks often therefore refer loan proposals to other banks, frequently their larger correspondents, and invite them to participate in the loan.

Syndicated lending therefore allows a bank to share with other banks (sometimes 100 or more from different countries) the risks involved in granting big advances. The borrower is able to obtain more than would be possible from a single bank, even though he or she deals with only one bank which organizes the participation of the other banks. The **lead manager**, as this bank is called, decides the rate of interest to be charged, collects payments from the borrower when due, and distributes the money to the participating banks.

International lending normally requires a clear understanding of the political and economic situation of the country in question, since granting credit naturally involves a degree of risk. Banks therefore examine exchange control regulations, balance of payments difficulties, payment records and so on before undertaking an international loan for a major project.

In Britain, the Export Credits Guarantee Department was set up in 1919 to help British exports. One of its range of services is to guarantee banks against losses resulting from loans made to the exporter (**supplier credit**) or to the buyer overseas (**buyer credit**). Such credits are used for loans of more than two years' duration and for large contracts such as ships. In the case of a buyer credit, the ECGD lends up to 85% of the contract price to the buyer, or a bank in the buyer's country, so that the exporter can be paid. A similar organization in the USA is the Export-Import Bank (Eximbank), a government organization set up in 1934 to aid trade between the United States and other countries.

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Section A **A1**

Use the questions for a brief warm-up activity with the whole group. If the group is large, divide into smaller groups of four or five.

A2

Allow only a short time for the learners to choose the best title for the text and to

fill in the missing words. Check orally, and discuss as necessary.

Answers

- 1 Mixed credits for Eastland
- 2 1 consortium; 2 won; 3 client; 4 bidders; 5 proposals; 6 package; 7 backing; 8 current

A3

Tapescript

PRESENTER: Roy Meadows explains project-related banking services to Della Tyson.

ROY: Packages can perhaps lead us to talk about ECGD-supported finance.

DELLA: Sorry? ECGD?

ROY: Export Credits Guarantee Department, run by the Department of Trade. This is an area which covers major civil engineering projects, and the export of capital and semi-capital equipment, plant and machinery – that sort of thing. So they're large contracts rather than small exports, and let us say for example you have a contract of two million pounds where credit is offered over five years. That allows the buyer five years in which to pay, and it's going to a country which has exchange problems, currency problems, balance of payments difficulties and so on. That's why it needs the support of a period of credit. Now ECGD will cover up to say eighty-five per cent of the contract value and offer the buyer, or a bank in the buyer's country, a line of credit, which we call a buyer credit, so that ECGD will guarantee the borrowing as such, and Metropolitan and Provincial will stand in then to the overseas bank, to enable the buyer in that country to actually supply the money back to the UK, for the purchase.

DELLA: Ah, right.

ROY: As part of the package we might supply the remaining fifteen per cent to the buyer through what we call a front-end loan, so that overall the package for the UK exporter is in fact one hundred per cent of his export price.

DELLA: Yes but why's it called a front-end loan?

ROY: The front end is normally the fifteen per cent we're referring to that is paid at the outset, upon shipment of the goods, whereas the eighty-five per cent, which is spread over five years as part of the financial package allowing credit to the buyer, but the eighty-five per cent can be paid in instalments after shipment again, according to the terms of the contract and, and the financial arrangement.

DELLA: I'm with you. Yeah.

ROY: A lot of big civil engineering projects are financed in this way, and progress payments are made to the contractors at agreed stages during, during the construction period. So that's one illustration of a package deal.

DELLA: Yes, I see. What, what about charges?

ROY: The only charge that the exporter has to pay is ECGD's premium, and the only recourse to the exporter is if he fails in the performance of the contract. The buyer is charged a preferential fixed rate of interest set by ECGD, as well as certain commissions, which ECGD will quote on a case to case basis.

DELLA: OK.

ROY: Buyer credits are available in foreign currency, usually in Deutschmarks or dollars, and in these cases it's possible to pay an additional premium to cover against any

exchange rate fluctuations that might occur between the time of tendering and the award of the contract.

DELLA: I see. So it's all very secure for the supplier, isn't it?

ROY: Yeah, that's the idea.

PRESENTER: So that's one way in which Roy's division of the bank can help to finance major projects.

Answers

- 1 Roy Meadows talks about the finance offered mainly by a British government department.
- 2 He refers to a medium-term term loan (*5 years*).

A4

Ask the group to look through the list first. Then play the cassette again, to enable the learners to tick the appropriate items. Check orally.

Answers

These items are mentioned:

finance of civil engineering projects

export of capital goods

export of semi-capital goods

buyer credits

front-end loans

package deals

A5

Having listened to this conversation twice, your learners may well be able to do this task without recourse to the cassette. Ask them to justify their answers where appropriate.

Answers

- 1 True.
- 2 True.
- 3 False. The ECGD covers up to around 85% of the contract value, and the remainder is provided by the bank.
- 4 False. The front-end loan covers the percentage of the contract value not covered by the ECGD.
- 5 True.
- 6 False. He says one, although in fact he gives two examples: the first concerns an export order, and the second concerns civil engineering projects.
- 7 True.
- 8 True.
- 9 True.

A6

This task could be set as homework.

Answers

1 Packages; 2 major civil engineering projects; 3 capital and semi-capital equipment; 4 plant; 5 credit; 6 balance of payments difficulties; 7 to enable; 8 purchase; 9 front-end loan; 10 outset; 11 instalments; 12 progress payments ... contractors; 13 recourse; 14 preferential fixed rate of interest; 15 commissions; 16 quote; 17 an additional premium ... exchange rate fluctuations; 18 tendering ... award

A7

As with A1, your learners may need to do some research out of class for this discussion to work well.

Section B B1

Give the group a few minutes to read the survey. Circulate among the group and answer any questions individual learners may have.

Answers

- 1 Three involve import/export and there are two projects for the Cockle Development Company and the Government of Northland.
- 2 The loan to the Newlandia Transport Authority, for USD 10 million.
- 3 The loan to the Government of Northland.
- 4 Two – the Cockle Development Company and Newlandia Transport Authority loans.
- 5 Two – the ones to Newlandia Petroleum Corporation and Newlandia Transport Authority from Key Commercial International and Wallers.

B2**Tapescript**

PRESENTER: Ken Bailey is interviewed about his work.

KEN: As a merchant bank we cater solely for corporate customers as opposed to private clients, and that's often stated as the difference between being a wholesale bank and a retail bank, retail being a branch network that caters for private individuals as opposed to a wholesale bank which deals with producers, with corporate traders, with exporters, importers – a trade related bank.

INTERVIEWER: Does that mean, for example, that you offer long, longer-term finance than a clearing bank?

KEN: Yes, it could do. It mainly means that, that we're offering it to different people.

INTERVIEWER: I see.

KEN: The length of time you will lend, or go into a deal, really depends on the market at the time. The method, the main method for raising long-term funds in recent years has been mainly to large institutions worldwide, or indeed governments, by arranging a syndicated Eurobond issue or a syndicated Euroloan. In the past, for example, we've lent the government of Northland, say, five hundred million

dollars over twenty years and sought partners throughout the world who are likely to participate in that borrowing. So that's where the source of long-term money has come.

INTERVIEWER: Right. So what's the first move when a new piece of business comes in? You, you get a customer to come to see you, is that right?

KEN: Well, not necessarily. No, you, you maintain contacts, particularly at government level, to understand where there is a need for borrowing.

INTERVIEWER: I see.

KEN: And then as a lead manager in a loan you would compete with other banks in the world in discussions with the government, if it was that, or a company if it was a large Norwegian hydro-electric company, say, raising plant in Africa. You would enter into discussions with them, relying on your sales technique and the fact that you've done previous business, and hopefully you'd be appointed the lead manager. You'd then decide whether you wanted to finance the whole of it yourself, you may have sufficient capital, or more likely you would then offer via a telex message. A fairly long offer document would be sent to all the banks you believe would be interested in participating in this raising of money. So the customer probably wouldn't have a direct contact with those other banks.

INTERVIEWER: Right.

KEN: We would have a lot of advisory conversations with the customer, perhaps, for example, to suggest when we go into the market. We're aware of what's happening in the market, and if there are ten issues currently being sold on the market, we would advise our customer to wait, unless they can make the rate more attractive by adding, say, a sixteenth to the yield for the participating banks.

PRESENTER: That was Ken, talking about syndicated loans as a means of financing major projects.

Answers

- 1 Ken Bailey is explaining how his bank finances projects.
- 2 Three.

B3

Learners could compare their orders before listening to the interview again.

Answers

This is the correct order of events: B 1; F 2; A 3; C 4; E 5; D6

B4

This task could be done outside the class or at the beginning of the next class as revision.

Answers

1 merchant bank ... cater solely; 2 clearing bank; 3 raising long-term funds; 4 institutions; 5 syndicated Eurobond issue; 6 participate; 7 source; 8 a lead manager; 9 raising plant; 10 appointed; 11 sufficient capital; 12 currently; 13 yield

B5

First of all, give the group a minute to look through the task and understand what it is about. Then play the cassette.

Tapescript

- PRESENTER: Look at the sentences in your book and decide which meaning is intended.
- 1 As a merchant bank we cater solely for corporate customers ...
 - 2 The method, the main method for raising long-term funds in recent years ...
 - 3 So that's where the source of long-term money has come ...
 - 4 You would then decide whether you wanted to finance the whole of it yourself ...
 - 5 So the customer probably wouldn't have a direct contact with those other banks ...
 - 6 We would have a lot of advisory conversations with the customer ...
 - 7 We would advise our customer to wait ...

Answers

- 1 a) *solely* is stressed. If *corporate* had been stressed, the answer would be b).
- 2 a) *main* is stressed. If *recent* had been stressed, the answer would be b).
- 3 b) *long-term* is stressed. If *that's* had been stressed, the answer would be a).
- 4 b) *whole* is stressed. If *then* had been stressed, the answer would be a).
- 5 b) *direct* is stressed. If *customer* had been stressed, the answer would be a).
- 6 b) *advisory* is stressed. If *lot* had been stressed, the answer would be a).
- 7 b) *wait* is stressed. If *advise* had been stressed, the answer would be a).

Section C C1**Tapescript**

- PRESENTER: Ken Bailey receives a phone call from Paul Black.
- KEN: Ken Bailey speaking.
- PAUL: Hello, Ken. This is Paul Black.
- KEN: Hello, Paul. How are you?
- PAUL: Fine. And you?
- KEN: Fine, thanks. What can I do for you?
- PAUL: Well, it looks as if we're going to be raising a large sum of money for the project that we talked about last time. We were wondering if you'd be interested in managing it for us.
- KEN: This is the extension of the electricity transmission system that we're talking about, isn't it?
- PAUL: That's right. For the State Power Board.
- KEN: Ah. I've forgotten now exactly how much money you said would be involved.
- PAUL: We need to raise about two hundred and fifty million dollars.
- KEN: OK.
- PAUL: Well, that includes everything. I mean supply of the equipment, civil engineering work – the lot. The contract's going to a British/Swedish joint venture, on a turnkey basis. And we feel that now would be a good time to do it.
- KEN: Sure. Your economic indicators are good at the moment, aren't they?

- PAUL: Yes, that's right. As you probably know, our third quarter GNP rose by four per cent compared to the previous quarter and the trade balance has moved back into the black.
- KEN: Yes, I know. Well, it sounds very interesting, Paul, and I'm pleased you're giving us the opportunity to assist you. Can you tell me when you need to deal by?
- PAUL: Yes, we were thinking about the end of February, actually.
- KEN: End of February. I see. That doesn't leave us with a great deal of time. What I'll do, Paul, if I may, is to get back to you tomorrow after I've had a word with one or two colleagues. If we're going to underwrite it for you, which is the normal underwriting sense that if we can't find participants then we as the lead manager would take up what's left. We'd like to push it out to some good names, names that you know but, you know good names in the market, banks around the world.
- PAUL: Yes.
- KEN: Once we've established that we're going to do it, it's going to be important to meet as soon as possible, to discuss terms, period, rates, documentation and so on. I suggest next week.
- PAUL: Yes, next week is fine by me ...
- PRESENTER: So there seems to be a good chance that Ken's division will structure a syndicated loan to finance the project for Paul's government.

Answers

- 1 This is not the first time that Ken and Paul have discussed the project.
- 2 Ken does not give a firm answer.

C2

With more advanced classes you could ask them to do this activity as the first listening task.

TELEPHONE MEMO

Subject: Syndicated loan

Client: State Power Board of Northland

Contact person: Paul Black

Project: Extension of electricity transmission system

Sum: USD 250 million

Action required: Check internally, before phoning client tomorrow. Meeting arranged for next week.

Signed: Ken Bailey

Date: 2 January, 1991

C3

This task could be done out of class, if you prefer.

Answers

1 senior civil servant; 2 treasury department; 3 raising a large sum of money; 4 civil engineering work; 5 joint venture; 6 turnkey basis; 7 economic indicators 8 GNP (*Gross National Product*); 9 quarter; 10 trade balance; 11 in the black; 12 participants; 13 lead manager; 14 established; 15 terms; 16 documentation

C4

This task highlights some of the features from the listening. Allow a minute or so for the group to look through the list and to ask any questions that they might have about the techniques in the grid. Then give them two or three minutes in which to write in their choice of order of importance. Get them to compare and discuss their answers in pairs. Circulate and give any necessary feedback.

C5

This is role play gives the learners an opportunity to practise their negotiating skills. Do not let the activity run for much more than ten minutes. Ask each pair for brief details of their preliminary terms. Conclude with any necessary language feedback.

Section D

D1

Ask the learners to scan the text for the answers to the five questions. Set a time limit on this task.

Answers

- 1 Medium-term (8 years).
- 2 Strutz-Dilschman.
- 3 US dollars.
- 4 The average six-month LIBOR for Eurodollar deposits, plus 2 and 1/16 per cent per annum.
- 5 England.

D2

This task requires a more detailed reading of the text.

Answers

- 10 January The beginning of the period in which the State Power Board may take up the loan facility.
- 10 January The State Power Board signed the contract with Strutz Dilschman.
- 19 February Banks which want to take part in the syndicated loan must (noon) confirm their commitment to Key Commercial.
- 20 March End of the period in which the State Power Board may take up the loan facility.
- 10 January The State Power Board signed the loan agreement with Key Commercial.

D3

If you are short of time or you feel you have exploited the text enough, this task could be done out of class and checked quickly at the beginning of the next class.

Answers

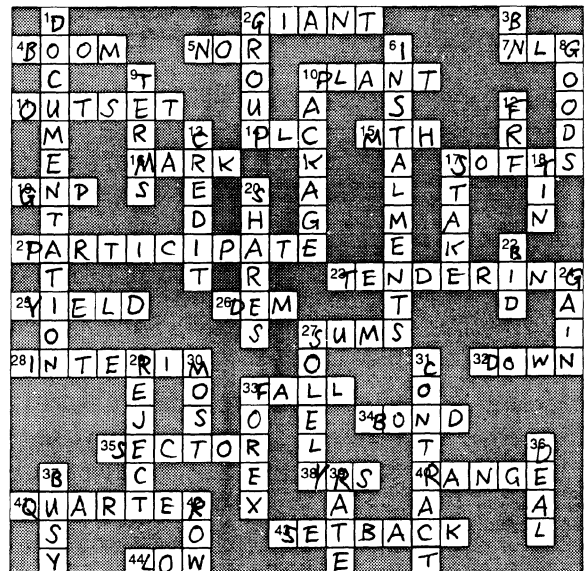
- 1 False. Mandated means that they have been authorized to act for the client.
- 2 True. The loan agreement is for \$250 million, but the bank is syndicating only up to \$200 million.
- 3 True. The loan of \$250 million covers 85 per cent of the contract value. The full contract value is therefore approximately \$294 million.
- 4 False. There is a guarantor, namely the Federal Republic of Northland.
- 5 True. The latest the loan can be taken up is 20 March 1991, and the loan period is 8 years.
- 6 True. It is a fixed rate above the average six-month LIBOR, which may of course change.
- 7 True.
- 8 False. Subscriptions are only in multiples of \$200,000.
- 9 True. It is at Key Commercial's sole discretion.
- 10 True.

D4

Divide the group into pairs and conduct the activity as a simultaneous pair exercise. Circulate and monitor. If the group is small enough, give feedback on the telexes as you go along. If there are too many telexes for you to read in this way, collect them in, and return them with any necessary comments at a later date.

D5

Crossword puzzle
solution



Unit 9 Trends

Briefing

Banking has faced considerable external change over recent decades, and major changes have taken place in the industry itself. Developments have been many and rapid. One of the most important developments during the 1980s was the growth in international debt problems, a situation which had begun to evolve in the previous decade.

In addition to the growth in the financial needs of large companies, government agencies around the world also formed an area of growing demand for finance in the 1970s. International banks assisted countries with balance of payments difficulties, that is those which were importing much more than they were exporting, by lending them large sums of money, and this assistance increased after the sharp rise in oil prices in 1973, since the higher prices meant even greater balance of payments problems for some countries. Banks were at this time able to lend out more money, deposited with them by oil producing countries, to countries with payment deficits. Some leading banks committed sums which exceeded their capital and reserves, ignoring the principle of a well-spread loan portfolio.

During the 1980s, however, high interest rates and world recession prevented several countries from meeting their repayment obligations. Banks have had to reschedule loans, that is arrange for interest payments and repayment instalments to be delayed, and the debt crisis, as it has been termed, has put banking in the industrialized countries under a certain amount of strain. Some observers see the financial strength of the banks as now depending on the financial strength of the debtors. In this way, they claim, the debt problem threatens both the development of the debtor countries and the stability of the banking system of the industrialized world.

A second challenge faced by banks recently is the increasing competition from other organizations, both in terms of numbers and in the range of financial services offered. Banks are generally very closely regulated, examined, restricted and supervised, making it sometimes difficult to meet new competition from institutions operating under different regulations, such as insurance companies. Laws and regulations restraining the activities of banks and other financial organizations have been changing, and continue to change. One example in the UK is the so-called Big Bang, which in 1986 deregulated the traditional procedures for dealing in UK securities. The changes taking place in the financial services industry are not confined to any one country, however, and innovation and development are contributing to general market evolution, both nationally and internationally.

A third trend in banking during recent years has been the growth in the application of technology in the industry. Accounting records are maintained with the aid of computer systems, where ledgers were once kept by hand. Messages can now be transmitted and funds can be transferred around the world electronically in a

matter of moments. Dealing rooms often use the latest technology, with electronic hardware and software providing the essential data. The information systems used may include a transaction input capability, an interface with main office systems, large high resolution colour displays, and so on, to provide the up-to-the minute data on which effective trading decisions are based.

While electronic systems reduce time and paper, they do involve certain risks, such as those of computer system failure and fraud. Security operations in both cases are therefore of vital importance to modern banks. If a system breaks down, it is imperative that information is not lost. With large sums of money being sent around the world electronically, it is also imperative that banks prevent outsiders or unauthorized users from penetrating their systems and diverting funds for their own use. One professional survey in the UK in the mid-1980s estimated that computer fraud involving funds transfer in the UK totalled some £50 million a year.

Banking services offered to the general public are also becoming increasingly automated, as banks try to reduce their costs associated with branch over-the-counter transactions, such as personnel costs.

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Section A **A1**

Use the questions for a brief warm-up activity with the whole group.

A2

Allow a couple of minutes or so for the pairs to note down a list of the problems before listening to Robert Aguda. Were there any problems he mentioned which they had not noted? Conversely, were there any problems they had noted which he did not mention?

Tapescript

PRESENTER: Robert Aguda talks about the debt problems facing developing countries.

ROBERT: I believe that the enormous economic problems facing developing countries means that the outlook for many of them is grim. Indeed, recent forecasts by the IMF, the OECD and the World Bank are all far from encouraging. If the big indebtedness problems of some of these countries is not resolved, we could well see significant financial and economic collapse, leading in turn to major political repercussions. We ourselves are very reluctant to borrow from the markets, because we understand what the problems are when it comes to repaying. We have only to look at the debt service costs of the big, middle-income countries in Latin America. If the external indebtedness of these countries was to be written off overnight, then most of them would be able to grow and develop very rapidly.

In Africa, external debts are much larger, in relative terms, than in Latin America. In the Sudan, for instance, I believe that over one hundred per cent of export earnings are required for debt servicing. So even if the debts of African countries were written off, I doubt very much if many of them would grow, simply because of lack of resources, or of the effective use of resources. This is why aid, concessional aid to the poorer countries of the African continent, should be

stepped up for some time to come, possibly for decades.

On top of this, I think that there should be a global dialogue in order to combat inflation, to reduce government deficits and to get interest rates down. Granted the balance of payments deficit of the USA, for example, means that it is very much easier to export to America. And this is, if you like, a plus for some developing countries. But at the same time there is a problem for the debtor countries of high interest rates, which mean that they themselves can't import so much. So trade declines. These problems need very special attention to establish worldwide economic activity on an overall, stable basis.

PRESENTER: Robert, expressing his concerns for the period ahead.

Answers

The problems mentioned by Robert Aguda are:

- possible financial and economic collapse with political repercussions.
- debt service costs
- export earnings used to service debt costs
- high interest rates limit imports
- decline in trade

A3

Replay the cassette, pausing it at times to allow the learners time in which to note down answers.

Answers

- 1 ... the outlook for many of them is grim.
- 2 ... significant financial and economic collapse could occur, leading in turn to major political repercussions.
- 3 ... it is aware of the problems concerned with repayment.
- 4 ... most of them would be able to grow and develop very rapidly.
- 5 ... in relative terms than in Latin America.
- 6 ... few of them would grow, because of the lack of resources or the effective use of resources.
- 7 ... concessional aid, possibly for decades.
- 8 ... combat inflation, to reduce government deficits, and to get interest rates down.
- 9 ... that the balance of payments deficit of the USA means that it is very much easier to export to America.
- 10 ... debtor countries cannot import so much.
- 11 ... establish worldwide economic activity on an overall, stable basis.

A4

First of all, give your learners a minute to look through the task and understand what it is about. Then play the cassette.

Tapescript

PRESENTER: Look at the sentences in your book and decide which meaning is intended.

- 1 Indeed recent forecasts by the IMF, the OECD and the World Bank are all far

- from encouraging ...
- 2 We ourselves are very reluctant to borrow from the markets ...
 - 3 We have only to look at the debt service costs ...
 - 4 I believe that over one hundred per cent of export earnings are required ...
 - 5 I think there should be a global dialogue in order to combat inflation ...
 - 6 And this is, if you like, a plus for some developing countries ...
 - 7 These problems need very special attention ...

Answers

- 1 b) *encouraging* is stressed. If *recent* had been stressed, the answer would be a).
- 2 b) *reluctant* is stressed. If *ourselves* had been stressed, the answer would be a).
- 3 a) *look* is stressed. If *service* had been stressed, the answer would be b).
- 4 b) *cent* is stressed. If *believe* had been stressed, the answer would be a).
- 5 a) *global* is stressed. If *combat* had been stressed, the answer would be b).
- 6 a) *plus* is stressed. If *developing* had been stressed, the answer would be b).
- 7 b) *special* is stressed. If *these* had been stressed, the answer would be a).

A5

Allow a couple of minutes for the group to look through the suggestions, and to number them in their chosen order of importance. Divide the group into pairs for a discussion of answers. Monitor, and conclude with any necessary feedback.

B1

Allow sufficient time for the learners to read the steps in the grid. Then play the cassette to enable the learners to number the steps in their correct order.

Tapescript

PRESENTER: Now we hear a view of the debt crisis of developing countries from an American banker, Ed Walker.

Ed: I think that one continuing uncertainty which the banking industry will face for some time to come is that of the debt-servicing problems of the developing countries. Fortunately, our own exposure is less than that of many other major banks, but we've still had to increase our reserve for credit losses quite significantly. I think in 1990 we allocated something like six hundred and fifty million dollars to these reserves. So across the industry we're talking about a lot of money being used to increase capital-to-loan ratios, and we're seeing a lot of anxiety about a debt crisis which is not really confined to any one country or any one region.

Now what the answer is to this debt crisis, of course, nobody really knows. Our approach at Cybulski is to look for solutions on an individual country basis. What we're doing is trying to find ways of structuring the debt so that the economic performance of debtor nations will enable them to service their debt and to seek further funds from the open market.

There are reasonable solutions, we believe, including the use of concessionary rates on existing loans. Several of our largest international credits are now considered non-performing, which means that we've placed them on non-accrual status. Short-term debt has been converted into long-term debt. The amortizations and

maturities of medium- and long-term debt due in the late eighties and early nineties has been restructured.

To take Westina, for example, we have outstandings of nine hundred and fifty million dollars, some two thirds of which is public-sector debt, and the remainder of which is to private-sector borrowers. We've recently completed negotiations concerning public-sector debt and have rescheduled certain amortization periods. Original interest rates have been adjusted down from Prime plus two per cent to LIBOR plus zero point eight seven five per cent.

Westina is one of three countries with liquidity problems where we have outstandings exceeding one per cent of our total assets. For some other banks, the situation is much worse. What the effects of this situation are going to be for the creditor banks, or for the international banking community as a whole, we can't say. There are some pretty heavy debt burdens around, and we shouldn't underestimate the problems that we still face. I think it's going to take more than a single-method solution, because what we're really talking about is maintaining the stability of the international banking system.

PRESENTER: That was Ed, an American banker, talking about some of the problems for international banking that are presented by developing country debt.

Answers

- 4 Conversion of short-term debt into long-term debt.
- 3 Placing of some of the largest international loans on non-accrual status.
- 1 Increase of reserve for credit losses to \$650 million.
- 5 Restructuring amortizations and maturities of medium- and long-term debt.
- 2 Search for solutions on an individual country basis and for ways of structuring the debt.

B2

Answers

1 ✓; 3 ✓; 4 ✓; 6 ✓; 7 ✓; 8 ✓; 9 ✓; 11 ✓

B3

Ask the group to look through the list of expressions. Replay the section, after asking the learners to tell you to stop the cassette each time that an answer is apparent. Elicit oral answers, and ask them to write these down. If the group misses an answer then replay the target word or phrase several times, rather than letting the tape run on.

Answers

1 debt-servicing problems; 2 exposure; 3 credit losses; 4 allocated; 5 capital-to-loan ratios; 6 solutions; 7 debtor nations; 8 concessionary rates; 9 on non-accrual status; 10 amortizations and maturities; 11 outstandings; 12 public-sector debt; 13 private-sector borrowers; 14 negotiations; 15 prime; 16 LIBOR; 17 liquidity problems; 18 exceeding ... total assets; 19 creditor banks

B4

Allow a few minutes for the learners to look through the suggestions listed, and to select their five most important, in order of importance. Then allow a couple of minutes for reasoned discussions in pairs, and the make-up of new lists. Conclude with a couple of minutes of group discussion, to see if there is any consensus.

Section C C1

Allow a couple of minutes for the learners to choose an appropriate title, and then to fill in the gaps.

Answers

- 1 Stockbrokers expand
- 2 1 deposits; 2 limited; 3 operations; 4 corporate; 5 linked; 6 offered; 7 move; 8 prepare

C2

Focus attention on the questions before you play the cassette. Elicit oral answers after the learners have listened to the section, and discuss as necessary.

Tapescript

PRESENTER: Colin Anderson talks about the changes in the banking system.

COLIN: As my topic for this seminar, I have chosen changes in institutional boundaries in the financial services industry, by which I mean the trend towards the adjustment or removal of barriers between different types of financial services. This trend involves a growing departure from the practice of restricting particular financial services to particular classes of institution by statutory or other means. I believe that the consequences of this trend are likely to be more far-reaching than even those of the abandonment of exchange control in 1979, an event which stimulated some comprehensive new strategic thinking. The changes now occurring in the financial area are less specific than, but as significant as, the abandonment of exchange control, and will, I believe, cause substantial change in the institutional structures of many countries.

This development is not a product of any particular institutional environment, and is not peculiar to any one country. It is, as we shall see later, already under way here, but is perhaps at present most obvious in the USA, where two major trends have emerged in recent years.

First, we have seen the bringing together of some very different activities in the formation of large financial conglomerates. For example, the largest American insurance company and one major retailing group have both acquired leading securities and commodities trading houses. At the same time, securities houses have themselves begun offering something very close to nationwide bank account facilities. Further changes in legislation could make it possible for banks to add to their financial services certain types of securities trading, insurance and operations in real estate.

The changes taking place in the financial sector in the USA may also be observed in some of the developments in the financial services industries of the UK and other

countries. UK performance in invisible earnings has generally been good, with financial services, mainly banking and insurance, generating large surpluses. With our manufacturing industries facing fierce and increasing competition from newly-industrialized nations, and with our oil and gas reserves strictly limited, we cannot afford to neglect financial services as an important source of income. One of our primary concerns must be to ensure the development of new areas of profitable activity to replace those that are, or may soon be, in decline. It is for these reasons that changes in the traditional demarcations between financial services, deserve attention, offering as they do opportunities for the release of new energies and enterprise.

I would like now to turn to events in the UK, in particular the increasing competition between the banks and building societies. You will of course already know ...

PRESENTER: That was Colin talking about the changes that are likely to change the face of banking and other financial institutions.

Answers

- 1 Colin Anderson is talking about changes that have already started.
- 2 This is a question of interpretation, but it seems that Colin is positive about the changes he is talking about, since they offer profitable opportunities for the future.

C3

Let the learners read the notes before hearing Ed Walker speak again.

Corrected notes

Seminar Changes in institutional boundaries in the financial services industry

Likely to bring about a lot of changes. As important as the abandonment of exchange control in 1979.

Changes not limited to any one country. Most obvious in the USA, where there are 2 main trends:

- 1) formation of big financial conglomerates
- 2) securities houses offering something close to nationwide banking facilities.

Changes occurring in the UK. UK invisible earnings generally good, especially banking and insurance. UK facing competition from newly-industrialized countries. UK oil and gas limited, so UK must not neglect financial services as an important source of income. Must develop them to replace some manufacturing industries in decline.

C4

This task could be done in the learner's own time.

Answers

1 Q; 2 A; 3 L; 4 N; 5 E; 6 P; 7 H; 8 R; 9 S; 10 K; 11 T; 12 O; 13 J; 14 D;
15 I; 16 F; 17 B; 18 M; 19 C; 20 G

C5

This task prepares learners for the activity in C6.

Answers

1 J; 2 B; 3 A; 4 E; 5 C; 6 I; 7 G; 8 D; 9 F; 10 H

C6

You could ask your learners to prepare for this activity out of class. When they do it, make sure they do not fully script their introduction.

Section D D1

This is a warm-up activity for the listening in D3.

D2

Similarly, the vocabulary activity prepares learners for the listening in D3.

Answers

- 1c (a = debts; no special term for b)
- 2b (a = credit cards, c = a balance)
- 3c (b = budget, no special term for a)
- 4a (b = on line, no special term for c)
- 5b (a = videophone, c = projector)
- 6a (b = off line; no special term for c)
- 7c (a = host site, b = computer room)
- 8c (b = advertisements, no special term for a)
- 9a (b = workstation, c = split screen)
- 10b
- 11a (b = to fix prices, c = to estimate prices)
- 12a (c = earnings, no special term for b)
- 13c
- 14c (a = systems support, b = operating systems)
- 15a (b = budget, no special term for c)
- 16c (a = software, no special term for b)
- 17b (a = burglary, no special term for c)
- 18b (a = ID cards, c = punched cards)
- 19b (No special terms for a or c)

D3

Focus attention on the statements before playing the cassette.

Tapescript

- PRESENTER: Kate Morley talks about the importance of new technology in banking.
- INTERVIEWER: Could you say something about computerization and its effects on banking?
- KATE: Well, in this bank probably the first basis of computerization was, actually, to get the accounting data right, to pass the debits and credits into an accounting system for the bank's books on a daily basis. The next major step, I would think, was the need to have some information available real time, to, to go on to visual display units, where in fact the data was actually produced and stored on line. So the area of operations which I work in now is very much based on VDU input, VDU correction of data, and then subsequently when everything is correct as far as we can tell, we then use that as a database, to produce advices and to produce the data we need for other communications media, like a telex, like a SWIFT message, like interfaces with other banking communication systems.
- INTERVIEWER: Mmm, I see. So ...
- KATE: Probably one of the major further enhancements was the need, real time, to be able to quote prices in a market, and then we had things like the foreign exchange dealing system which allowed a dealer to give an up-to-the-minute quote to a customer, and to get an up-to-the-minute picture of the bank's exposure in various areas. You know, did he need to pur ... did he need to have much currency of a certain kind today, did he have to buy today? So he had not only a real time, not so much a real time data collection system as a real time information and position system. And there's such a complexity of instruments nowadays, with options and so on, that you can't even begin unless you've got the computer performance that's needed.
- INTERVIEWER: Yes, I see. Could we go briefly on to electronic funds transfer?
- KATE: Yes, certainly this is something which has had a great impact over the last few years. Money moves with incredible speed nowadays. EFT applications are increasingly important for companies. Since the late eighties, some industrial concerns and investment managers have built up trading rooms on a par with the banks. Data links and telecom networks have made global trading and international treasury management possible, and here, incidentally, data protection has become very important. Firstly because of equipment failure – back-up systems and contingency planning in case you lose all your data – and secondly, computer crime involving funds transfer. A lot of networks link financial centres worldwide, and identifying weak links in either case is very difficult. Just in terms of fraud, they reckon that the network crime is increasing by around thirty per cent a year.
- INTERVIEWER: Yes. What can you do about it?
- KATE: Well, there's a lot of work going on on this. One way is by stopping access to unauthorized users by using authentication measures – personal identification numbers, message authentication codes, and so on. Then there's encryption, which basically means scrambling information at the source, transmitting it, and then reconstructing it at the other end.
- INTERVIEWER: I see. So finally, what about EFT and the private consumer?
- KATE: Yes, that's not my area really, but certainly there are some very important applications there too. Perhaps we could mention multi-use IC cards, for home shopping and banking. And for ATM withdrawals, as well as direct debits at the point of sale. But as I say, that's not my area. Banking technology is moving so fast that you simply can't keep up with everything.

PRESENTER: Kate Morley there talking about the impact of new technology on banking.

Answers

- 1 Kate talks about the history of computerization in her bank.
- 2 Kate does not describe the bank's computer system.
- 3 Kate talks about electronic funds transfer.
- 4 The interviewer does not ask technical questions about the bank's computers.

D4

Let the learners look through the list of courses and conferences. Play the interview again, if necessary, for the learners to tick the appropriate boxes.

Answers

These are the courses that Kate Morley would probably be most interested in attending:

Documentation for dealers

Electronic trade payment

Security in electronic funds transfer

Risk management of foreign exchange transactions

Message transmission: strategic choices

Measuring information systems performance

D5

Allow up to ten minutes for the learners to read the text and to answer the three questions.

Answers

- 1 The text is about systems.
- 2 284 (260 domestic branches, plus 3 key branches abroad, plus branches in 21 countries). This assumes that there is only one branch in each of the 21 countries.
- 3 An element of choice is involved, and there is no one correct answer.

D6

Allow five to ten minutes for the learners to read the text and to draw up the two lists.

Answers

Business banking

Sylvia: dealing function, global interbank telex and communications systems.

Dealing room package: data on cash flow management, automatic confirmation of deals.

Portfolio and trust management system: connection to Northland stock exchange.

Purchases via a terminal.

Interfacing customers' personal computers with the bank's network, to link with

domestic and foreign stock exchanges.

Retail banking

Sylvia: branch system including management, clerical and teller functions, plus ATM function.

D7

Use the questions as the basis for a whole group discussion. If the group is large, you may wish to break into smaller groups. In this case, circulate and monitor performance, giving feedback as necessary.

ENGLISH FOR INTERNATIONAL BANKING AND FINANCE

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English for International Banking and Finance is for professional people working in financial institutions and related areas of business. The book can be worked through as a course or units can be chosen to suit individual needs. It can be used in class, in one-to-one teaching and for self-study. The level is intermediate and upper-intermediate.

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