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**КАФЕДРА ИНОСТРАННЫХ ЯЗЫКОВ
ПО ЭКОНОМИЧЕСКИМ СПЕЦИАЛЬНОСТЯМ**

MONEY & BANKING FOR FUTURE ECONOMISTS

Методические рекомендации на английском языке
для студентов экономических специальностей

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Методические рекомендации предназначены для студентов экономических специальностей.

Цель рекомендаций – подготовить студентов к использованию английского языка в профессиональном общении. Рекомендации направлены на обучение будущих специалистов лексике в денежно-банковской сфере, формирование навыков чтения и говорения.

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Contents

UNIT 1 MONEY

> *Neither a borrower nor a lender be.*
>
> from 'Hamlet' by William Shakespeare

Answer the following questions:

a) 1. Have you ever borrowed money from anyone?
2. Who from? How much?
3. Have you ever lent money to anyone?
4. Who to? How much?
5. Are you in debt at the moment? (i.e. Do you owe anyone any money?)
6. Does anyone owe you any money?
7. Who? How much?

> *Annual income twenty pounds, annual expenditure nineteen and six, result happiness.*
> *Annual income twenty pounds, annual expenditure twenty pounds ought and six, result misery.*
>
> from 'David Copperfield' by Charles Dickens

b) 1. Do you spend more than you earn, or less than you earn?
2. Do you have a budget for your money?
3. Do you keep a record of your expenses?

Text 1.1 MONEY. WHAT FOR?

(1) Money is one of man's greatest inventions and the fact that all but the least developed of human societies use money indicates that it is an essential tool of civilization. In the absence of some form of money, exchange may take the form of barter which is the direct exchange of goods and services for goods and services. Barter will serve man's requirements quite adequately when he provides most of his needs directly and relies upon market exchanges for very few of the things he wants. As the extent of specialization increases, the barter system proves very inefficient and frustrating. In the simplest societies each family will provide by its own efforts most of its needs and perhaps some small surpluses. A farmer will exchange any small surplus of food, wool or hides for the surpluses of other producers. But this system of exchange becomes very cumbersome as economic activities become more specialized. A specialist metal worker must seek out a large number of other specialists in order to obtain, by barter, the variety of goods he needs to satisfy his daily wants. The great disadvantage of barter is the fact that it depends upon a 'double coincidence of wants'. A hunter who wants to exchange his skins for corn must find, not merely a person who wants skins, but someone who wants skin and has a surplus of corn for disposal. The alternative is to exchange his skins for some other article and they carry out a series of similar exchanges until he finally gets his corn. Time and energy which could be devoted to production is spent on a laborious system of exchange.

(2) Quite early in his history man discovered a much more convenient arrangement. The use of some commodity as a medium of exchange makes exchange triangular and removes the major difficulty of the barter system. If a commodity is gener-

ally acceptable in exchange for goods and services, it is money. A producer now exchanges his goods for money and the money can be exchanged for whatever goods and services he requires.

(3) The functions of money.

1. A medium of exchange.

As we have already explained, the use of money as a medium of exchange makes possible a great extenuation of the principle of specialisation. In an advanced society the use of money allows us to exchange hours of labour for an amazing variety of goods and services. We can exchange, for example, two weeks' labour for a holiday abroad just as easily as we can exchange it for a piece of furniture or a year's rent on a television set. Such exchanges are taken for granted yet they would be inconvenient without the use of money.

2. A measure of value.

The first step in the use of money was probably the adoption of some commodity as a unit of account or measure of value. Money, most likely, came into use within the barter system as a means whereby the values of different goods could be compared. The direct exchange of goods for goods would raise all sorts of problems regarding valuation. For example 'How many bushels of corn are equal in value to one sheep, if twenty sheep exchange for three cows and one cow exchanges for ten bushels of corn?' The problem of exchange rates is easily solved when all other commodities are valued in terms of a single commodity which then acts as a standard of value. Money now serves as such a standard and when all economic goods are given money values (i.e. prices), we know, immediately, the value of one commodity in terms of any other commodity.

3. A store of value.

Once a commodity becomes universally acceptable in exchange for goods and services, it is possible to store wealth by holding a stock of this commodity. It is a great convenience to hold wealth in the form of money. Consider the problems of holding wealth in the form of some other commodity, say wheat. It may deteriorate, it is costly to store, may be insured, and there will be significant handling costs in accumulating and distributing it. In addition, its value may fall when it is being stored. The great disadvantage of holding wealth in the form of money has become very apparent in recent years — during periods of inflation its exchange value falls.

4. A means of making deferred payments.

An important function of money in the modern world, where so much business is conducted on the basis of credit, is to serve as a means of deferred payment. When goods are supplied on credit, the buyer has immediate use of them but does not have to make an immediate payment. The goods can be paid for three, or perhaps six months after delivery. In the case of hire purchase contracts, the buyer takes immediate delivery but pays by means of installments spread over one, two, or three years.

(4) A complex trading organisation based upon a system of credit can only operate in a monetary economy. Sellers would be most unlikely to accept promises to pay in the future which were expressed in terms of commodities other than money. They would have no idea how much of the commodities they would need in the future, and

if they do not want them, they face the trouble and risks involved in selling them. Sellers will accept promises to pay expressed in terms of money because, whatever the pattern of their future wants, they can be satisfied by using money.

Text-Based Activities

I Fill in the missing words: *granted, convenience, commodity, money, inventions, barter, valuation, exchange.*

1. Money is one of man's greatest....
2. In the absence of some form of money, exchange may take the form of....
3. If a... is generally acceptable in exchanging for goods and services, it is ….
4. Such exchanges are taken for....
5. The ... of goods for goods would raise all sorts of problems regarding....
6. It is a great... to hold wealth in the form of money.

II Find synonyms among the following words. Use them in the sentences of your own.

means, form, tool, frustrating, obtain, useless, need, instrument, shape, get, medium, commodity, general, require, labour, store, common, article, work, stock, deteriorate, significant, spoil, essential, apparent, conduct, purchase, evident, carry out, buy

III Find antonyms among the following words. Make up sentences with them.

absence, increase, major, spread, presence, same, reduce, minor, accumulate, different

IV Fill in the missing prepositions.

1. Monetary policy is concerned with the cost... money.
2. Bank-notes and coins are not the most important form ... money ... developed economies.
3. Cheques didn't come ... general use ... the second half of the seventeenth century.
4. A payment from one person ... another merely requires that the banker reduces the amount ... one deposit and increases it... another.
5. The transmission … payments ... means ... cheques creates problems when the person making the payment has an account... a different bank... the person receiving the payment.
6. Most countries have a central bank, which is responsible ...the operation ...the banking system.
7. Several merchant banks date back ... the nineteenth century.
8. ... recent years there has been a considerable extension... the range... financial services offered... building societies.

V Translate the following word combinations.

прямой обмен товарами и услугами, с ростом специализации, ряд подобных обменов, гораздо более удобное средство, основная сложность бартерной системы, в развитом обществе, предмет мебели, без использования денег, первый шаг, проблема обменных курсов, запас товаров, большое удобство, огромный недостаток, в период инфляций.

VI Answer the following questions:

1. What is barter?
2. When may exchange take the form of barter?

3. When is barter inefficient and frustrating?
4. What are the main functions of money?
5. Why has it become unprofitable to hold wealth in the form of money in recent years?
6. Why is money a perfect means of deferred payments?
7. How does a complex trading organisation operate in a monetary economy?

Text 1.2 HISTORY OF COINS

Read the passage and choose a suitable heading for each paragraph from the list below.

1. Superiority of silver and gold coins.
2. History of coins.
3. Qualities of good coinage.
4. Present-day forms of money.

(1) Money means coins, banknotes and cash in the bank account. We use it to make payments. Nowadays we know that the units of money must have certain qualities to be successful. They must be:
1. Standard. They must all be of the same kind, look the same, weigh the same, all be of the same type, shape, size and quality.
2. Durable. They must be strong and long-lasting, so that they are a store of value and do not wear out easily.
3. Scarce. They must be difficult to come by to keep their value.
4. Acceptable. They must be accepted as a medium of exchange in a society or country for buying and selling, that is they must be legal tender.
5. Portable. They must be easy to carry.
6. Divisible. It must be possible to divide the units of money of large value into smaller values.

(2) In the past many things were used as the medium of exchange — corn, furs, rice, tobacco, salt tea, rum — there is no end to them. In lime people realized that metals were superior to the commodities previously mentioned because coins made from metal are homogeneous, portable and easily divisible by weight.

(3) The Ancient Britons and Greek used iron, the Romans used copper but gradually silver and gold replaced them, because they keep indefinitely and provide a greater value in a smaller bulk. Another advantage is that all gold and silver of a certain weight and fineness is the same.

(4) The advent of coinage is a step forward because coins are free from most of the disadvantages of earlier forms of money. The first coins are credited to China around about 1.000. B.C. Originally people minted coins locally, gradually the state accepted responsibility for both the manufacture and the quality of coinage.

Text-Based Activities

Decide which of the following statements are correct.
1. Money means cash, banknotes and credit cards.
2. Coins are free from all disadvantages of earlier forms of money.

3. A great variety of coins circulated in Europe in the Middle Ages.
4. First coins are about three thousand years old.
5. Silver and gold coins have greater value than their face value.

Text 1.3 HISTORY OF BANKNOTES

Read the passage. Choose a suitable title for the passage from the list below. Support your point of view.

a) Role of gold and silversmiths
b) Development of paper money
c) Problem of safe keeping money and valuables
d) Beginning of banks

(1) After coins came notes. The hardest problem for anyone with money then was to find somewhere safe to keep it. It seemed sensible to look around for someone who had vaults and safes for their own business, and then to ask them to look after the money. Gold and silversmiths had such safes, because their trade was traffic in coin and bullion, and they needed somewhere secure to keep their stocks.

(2) So it came about in the seventeenth century that goldsmiths took these deposits for safe keeping. They issued a receipt which acknowledged the deposit of the money and incorporated a promise to return it on demand. More and more people came to hold these receipts and they began to circulate for value among merchants. Gradually it became the practice to issue these deposit receipts in standard amounts, e.g. 10, 50, 100. These receipts were very convenient, as they could be passed on, if one person owed money to another, and change hands many times, and still be good for payment. They came to be trusted and became usual in payment, as easier, lighter and quicker to handle than a lot of coin. The receipts were now expressed to be payable to bearer. People stopped calling them receipts, and began to describe them as goldsmiths' notes. So the goldsmiths began to exercise some of the functions of a banker. They kept money and valuables on safe deposit, and they issued notes. It was not long before they developed another important banking function, that of lending.

(3) In the beginning the merchant who deposited his money with the goldsmith expected to pay a fee, or commission, for having his money kept safe. In time the goldsmith learned that he need not keep the whole of the money left with him. In other words, some of his receipts were always out, circulating in the hands of the merchants. So the goldsmith always had some cash in hand, and he started to lend this out, charging interest. This was the beginning of banks.

Text-Based Activities

I Discuss what evidence there is in the text for the following statements:
1. Receipts issued in standard amounts were very convenient.
2. Goldsmiths began to exercise some of the functions of a banker.

II Make a list of questions you would ask a goldsmith if you wanted to keep your valuables safe with him.

III Act out the imaginary conversation with the goldsmith.

Text 1.4 MONETARY AND FISCAL POLICY

Read the text and answer the following question.

What goals does fiscal policy promote?

(1) The government can also use its own spending and taxing activities to achieve specific objectives. This is called fiscal policy. By increasing or decreasing its spending or taxing programs, the federal government may reduce or increase demand for goods and services. If the government reduces its own spending, it buys less from businesses, reducing sales and earnings, and people have less money to spend. Similarly, if the government raises taxes, people have less money to spend. Moreover, spending and taxing policies work together to increase or decrease aggregate demand. For example, if the government taxes to a greater extent than it spends, it causes a net reduction in the flow of income to people and businesses. Because this reduces aggregate demand for goods and services, it is a method for fighting inflation.

(2) Fiscal policy uses budget deficits or surpluses to promote economic stability and growth. In the United States, some fiscal policy tools work automatically — without action being taken by the president or Congress. The progressive income tax, for example, is generally considered to promote stability automatically. It tends to reduce the government's collection of revenue when personal and business incomes are declining, and thus helps offset the cutbacks in spending that accompany declining incomes. During business expansions, however, federal tax collection tends to rise fairly quickly and thus reduce inflationary pressures. During postwar business declines, Congress has sometimes legislated emergency spending measures, such as temporary increases in public works expenditures, as additional means of offsetting cutbacks in private spending and preventing unemployment.

(3) Yet there are also problems associated with the use of fiscal policy. Many people object to a reduction in government spending because this could mean a reduction in funds used to help provide education, health care and other services. Higher taxes are unpopular with both individuals and businesses. In addition, the use of fiscal policy to cause a sharp reduction in demand is somewhat controversial because it tends not only to reduce inflation but also to increase unemployment.

Text-Based Activities

I Decide which of the following statements are correct.

1. Fiscal policy is the government's spending and taxing policies.
2. The federal government reduces or increases demand for goods and services by increasing or decreasing its spending or taxing programs.
3. If the government reduces its own spending, it buys more from businesses, and people have more money to spend.
4. If the government taxes to a greater extent than it spends, it causes an increase in the flow of income to people and business.
5. All fiscal policy tools work automatically in the United States.
6. The progressive income tax promotes stability automatically.
7. The use of fiscal policy may not only reduce inflation but also increase unemployment.

II Answer the following questions:
1. What is fiscal policy?
2. How may the federal government reduce or increase demand for goods and services?
3. What causes a net reduction in the flow of income to people and businesses?
4. What does fiscal policy use to promote economic stability and growth?
5. How does the progressive income tax work?
6. Why do many people object to a reduction in government spending?
7. Why are higher taxes unpopular with both individuals and businesses?
8. What can the use of fiscal policy cause?

III Which of the following expresses the main idea of the text best of all?
1. Fiscal policy and its objectives.
2. Spending and taxing activities of the government.
3. The use of budget deficits or surpluses by fiscal policy.
4. Problems of the use of fiscal policy.

IV Give the main points of the text in 5-9 sentences. You may use the following clichés:
The text deals with... .
The text gives a valuable information on... .
Attention is drawn to the fact that… .
… are discussed.
Underlined is the conclusion that... .

V Speak about the use of fiscal policy.

UNIT 2 BANKING

Text 2.1 BANKING AS A SYSTEM

(1) Banking is the business of providing financial services to consumers and businesses. A broader definition of a bank is any financial institution that receives, collects, transfers, pays, exchanges, lends, invests, or safeguards money for its customers. This broader definition includes many other financial institutions that are not usually thought of as banks but which nevertheless provide one or more of these broadly defined banking services. These institutions include finance companies, investment companies, investment banks, insurance companies, pension funds, security brokers and dealers, mortgage companies, and real estate investment trusts.

(2) Although the type of services offered by a bank depends upon the type of bank and the country, services provided usually include:
- taking deposits from the general public and issuing checking and savings accounts;
- making loans to individuals and businesses;
- cashing cheques;
- facilitating money transactions such as wire transfers and cashiers checks;
- issuing credit cards and debit cards;
- storing valuables, particularly in a safe deposit box.

Types of Banks

(1) Banks' activities can be characterised as retail banking, dealing directly with individuals and small businesses, and investment banking, relating to activities on the financial markets. Most banks are profit-making, private enterprises. However, some are owned by government, or are non-profit making.

(2) Central banks are non-commercial bodies or government agencies tasked with responsibility for controlling interest rates and money supply across the whole economy. They act as Lender of last resort in event of a crisis.

(3) Commercial bank is the term used for a normal bank to distinguish it from an investment bank. Since the two no longer have to be under separate ownership, some use the term "commercial bank" to refer to a bank or a division of a bank that mostly deals with corporations or large businesses.

(4) Community development banks are regulated banks that provide financial services and credit to underserved markets or populations.

(5) Private banks manage the assets of high net worth individuals.

Offshore banks are banks located in jurisdictions with low taxation and regulation. Many offshore banks are essentially private banks.

(6) Savings banks traditionally accepted savings deposits and issued mortgages. Today, some countries have broadened the permitted activities of savings banks.

Investment banks "underwrite" (guarantee the sale of) stock and bond issues and advise on mergers.

(7) Merchant banks were traditionally banks which engaged in trade financing. The modern definition, however, refers to banks which provide capital to firms in the form of shares rather than loans. Unlike Venture capital firms, they tend not to invest in new companies.

(8) Universal banks, more commonly known as a financial services company, are engaged in several of these activities. Almost all large financial institutions are diversified and engage in multiple activities. In Europe and Asia, big banks are much diversified groups that, among other services, distribute also insurance.

(9) Online banks, which usually have no brick and mortar branches, first gained attention by offering higher rates on deposit products than traditional banks. While that is still true to some extent, the rate differences are not as significant as in the past. Most bank Web sites have an "About Us" page that describes the institution. There one can find information regarding the official name, their charter, address of the bank's headquarters and information about its insurance coverage.

Text-Based Activities

I Decide which of the following statements are correct.

1. Banking is the business of providing financial services to consumers only.
2. The type of services offered by a bank depends on the type of bank and the country.
3. Central banks are commercial bodies and the government has no rights to control their activities.
4. Private banks manage the assets of rich people.
5. All countries have broadened the permitted activities of savings banks.

6. Merchant banks were traditionally banks which were engaged in providing capital to new companies.
7. In Europe and Asia universal banks also distribute insurance.
8. Online banks provide their services through the Internet only.

II Answer the following questions:

1. What kind of business is banking?
2. What do services provided by a bank depend on?
3. What do services offered by a bank include?
4. Does retail banking deal with individuals only?
5. Why are central banks non-commercial bodies?
6. What is the term "commercial bank" used for?
7. Do private banks deal with individuals?
8. What are the activities of saving banks?
9. What kind of a bank is an offshore bank?
10. Are merchant banks engaged in trade financing?

Dialogue

Andrew White works for a local newspaper. He is a reporter. He interviews people. His interviewee is a banker. His name is Mr. Smith. Complete Andrew's questions by putting in the missing words.

Andrew: Mr. Smith, what bank ____ you run?
Mr. Smith: What bank do I run? I run a small community bank.
Andrew: Who ____ the bank's foundation?
Mr. Smith: Small depositors make the bank's strong foundation.
Andrew: What ____ they find attractive?
Mr. Smith: I believe they find attractive the services we provide and their quality.
Andrew: What services ____?
Mr. Smith: Our bank provides a wide range of services, but as it is a small bank we mostly serve individual clients.
Andrew: ____the quality of life in your community?
Mr. Smith: Of course, our bank's activity affects the quality of life in our community, especially loans we grant to small businesses.
Andrew: ____optimistic about the bank's future?
Mr. Smith: Yes, I am very optimistic about the bank's future. We welcome new clients and look forward to our mutual business successes.
Andrew: Thank you very much, Mr. Smith

Make up your own dialogues on the basis of the above dialogue and text.

Text 2.2 HISTORY OF BANKING

(1) Many of today's banking services were first practiced in ancient Phoenicia, China, and Greece, where trade and commerce flourished. The temples in Babylonia made loans from their treasuries as early as 2000 BC. The temples of ancient Greece served as safe-deposit vaults for the valuables of worshipers. The Greeks also coined money and developed a system of credit. The Roman Empire had a highly developed

banking system, and its bankers accepted deposits of money, made loans, and purchased mortgages. Shortly after the fall of Rome in 476 AD., banking declined in Europe.

(2) The increase of trade in the 13th-century Italy prompted the revival of banking. The moneychangers of the Italian states developed facilities for exchanging local and foreign currency. Soon merchants demanded other services, such as lending money, and gradually bank services were expanded.

(3) The first bank to offer most of the basic banking functions known today was the Bank of Barcelona in Spain. Founded by merchants in 1401, this bank held deposits, exchanged currency, and carried out lending operations. It also is believed to have introduced the bank check. Three other early banks, each managed by a committee of city officials, were the Bank of Amsterdam (1609), the Bank of Venice (1587), and the Bank of Hamburg (1619). These institutions laid the foundation for modern banks of deposit and transaction.

(4) For more than 300 years, banking on the European continent was in the hands of powerful statesmen and wealthy private bankers, such as the Medici family in Florence. During the 19th century, members of the Rothschild family became the most influential bankers in all Europe and probably in the world. This international banking family was founded by German financier Mayer Amschel Rothschild (1743-1812), but it soon spread to all the major European financial capitals.

(5) The Bank of France was organized in 1800 by Napoleon. The bank had become the dominant financial institution in France by the mid-1800s. In Germany, banking experienced a rapid development about the middle of the 19th century with the establishment of several strong stock-issuing, or publicly owned banks.

(6) Banking in the British Isles originated with the London goldsmiths of the 16th century. These men made loans and held valuables for safekeeping. By the 17th century English goldsmiths created the model for today's modern fractional reserve banking—that is, the practice of keeping a fraction of depositors' money in reserve while extending the remainder to borrowers in the form of loans. Customers deposited gold and silver with the goldsmiths for safekeeping and were given deposit receipts verifying their ownership of the gold deposited with the goldsmith. These receipts could be used as money because they were backed by gold. But the goldsmiths soon discovered that they could take a chance and issue additional receipts against the gold to other people who needed to borrow money. This worked as long as the original depositors did not withdraw all their gold at one time. Hence, the amount of receipts or claims on the gold frequently exceeded the actual amount of the gold, and the idea that bankers could create money was born.

Text-Based Activities

Answer the following questions:

1. Where were banking services first practiced?
2. What prompted the revival of banking?
3. What was the name of the first bank that offered the basic functions known today?
4. Who were the most influential bankers in Europe in the 19th century?
5. When did Banking on the British Isles originate?

Text 2.3 BANKS IN THE ECONOMY

(1) Banking services are extremely important in a free market economy and serve two primary purposes. First, by supplying customers with the basic mediums-of-exchange (cash, checking accounts, and credit cards), banks play a key role in the way goods and services are purchased. Without these familiar methods of payment, goods could only be exchanged by barter (trading one good for another), which is extremely time-consuming and inefficient. Second, by accepting money deposits from savers and then lending the money to borrowers, banks encourage the flow of money to productive use and investments. This in turn allows the economy to grow. Without this flow, savings would sit idle in someone's safe or pocket, money would not be available to borrow, people would not be able to purchase cars or houses, and businesses would not be able to build the new factories the economy needs to produce more goods and grow. Enabling the flow of money from savers to investors is called financial intermediation, and it is extremely important to a free market economy.

(2) A bank raises funds by attracting deposits, borrowing money in the inter-bank market, or issuing financial instruments in the money market or a capital market. The bank then lends out most of these funds to borrowers.

However, it would not be prudent for a bank to lend out all of its balance sheet. It must keep a certain proportion of its funds in reserve so that it can repay depositors who withdraw their deposits. Bank reserves are typically kept in the form of a deposit with a central bank. This behaviour is called fractional-reserve banking and it is a central issue of monetary policy.

(3) Banks are susceptible to many forms of risk which have triggered occasional systemic crises. Risks include liquidity risk (the risk that many depositors will request withdrawals beyond available funds), credit risk (the risk that those that owe money to the bank will not repay), and interest rate risk (the risk that the bank will become unprofitable if rising interest rates force it to pay relatively more on its deposits than it receives on its loans), among others.

Banking crises have developed many times throughout history when one or more risks materialize for a banking sector as a whole. Prominent examples include the U.S. Savings and Loan crisis in 1980s and early 1990s, the Japanese banking crisis during the 1990s.

(4) The combination of the instability of banks as well as their important facilitating role in the economy led to banking being thoroughly regulated. The amount of capital a bank is required to hold is a function of the amount and quality of its assets. Major banks are subject to the Basel Capital Accord promulgated by the Bank for International Settlements. In addition, banks are usually required to purchase deposit insurance to make sure smaller investors are not wiped out in the event of a bank failure.

Another reason banks are thoroughly regulated is that ultimately, no government can allow the banking system to fail. There is almost always a lender of last resort—in the event of a liquidity crisis (where short term obligations exceed short term assets) some element of government will step in to lend banks enough money to avoid bankruptcy.

Text-Based Activities

Answer the following questions:

1. What purposes do banking services serve?
2. What is called financial intermediation?
3. Is it important to a free market economy?
4. In what way does a bank raise funds?
5. What is fractional-reserve banking?
6. Are banks susceptible to any form of risk?
7. Why are banks thoroughly regulated?

UNIT 3 FINANCIAL INSTITUTIONS

Text 3.1 FINANCIAL INSTITUTIONS: WHAT ARE THEY?

(1) Banking institutions include commercial banks, savings and loan associations (SLAs), savings banks, and credit unions. The major differences between these types of banks involve how they are owned and how they manage their assets and liabilities.

(2) ***Commercial banks*** are so named because they specialize in loans to commercial and industrial businesses. Commercial banks are owned by private investors, called stockholders, or by companies called bank holding companies. The vast majority of commercial banks are owned by bank holding companies. (A holding company is a corporation that exists only to hold shares in another company.) The bank holding company form of ownership became increasingly attractive for several reasons. First, holding companies could engage in activities not permitted in the bank itself—for example, offering investment advice, underwriting securities, and engaging in other investment banking activities. But these activities were permitted in the bank if the holding company owned separate companies that offer these services. Using the holding company form of organization, bankers could then diversify their product lines and offer services requested by their customers. Second, many states had laws that restricted a bank from opening branches to within a certain number of miles from the bank's main branch. By setting up a holding company, a banking firm could locate new banks around the state and therefore put branches in locations not previously available.

(3) Commercial banks are "for profit" organizations. Their objective is to make a profit. The profits either can be paid out to bank stockholders or to the holding company in the form of dividends, or the profits can be retained to build capital (net worth). Commercial banks traditionally have the broadest variety of assets and liabilities. Their historical specialties have been commercial lending to businesses on the asset side and checking accounts for businesses and individuals on the liability side. However, commercial banks also make consumer loans for automobiles and other consumer goods as well as real estate (mortgage) loans for both consumers and businesses.

Commercial banks have traditionally been the largest source of loans to small businesses. They also make consumer loans, including mortgages, and offer credit cards, deposit products and checking accounts for everyone from students to seniors.

(4) ***National banks*** are chartered, regulated and supervised by the Office of the Comptroller of the Currency; headquartered in Washington, D.C. National banks have "National" or "N.A." in their name. State banks are chartered, regulated and supervised by their state's banking division. The Federal Deposit Insurance Corporation is the federal regulator of state-chartered banks that don't belong to the Federal Reserve System.

(5) ***Savings and loan associations*** *(SLAs)* are usually owned by stockholders, but they can be owned by depositors as well. (If owned by depositors, they are called “mutuals.”) If stock owned, the goal is to earn a profit that can either be paid out as a dividend or retained to increase capital. If owned by depositors, the objective is to earn a profit that can be used either to build capital or lower future loan rates or to raise future deposit rates for the depositor-owners. Traditional savings banks, also known as ***mutual savings banks*** (MSBs), on the contrary, have no stockholders, and their assets are administered for the sole benefit of depositors. Earnings are paid to depositors after expenses are met and reserves are set aside to insure the deposits. During the 1980s savings banks were in a great state of flux, and many began to provide the same kinds of services as commercial banks. Both SLAs and MSBs can now offer a full range of financial services, including multiple savings instruments; checking accounts; consumer, commercial, and agricultural loans; and trust and credit card services.

(6) ***Credit unions*** are nonprofit, cooperative financial institutions. Traditionally, people with a common bond have formed them - they work in the same industry or are members of a particular workers' union, share the same religion, etc. Today, the membership restrictions have softened significantly. Many credit unions simply require that you live or work in a certain geographic area in order to become a member. The vast majority of credit unions in the United States are federally chartered or state chartered credit unions that are federally insured. Credit unions frequently offer higher interest on deposit products than banks or thrifts; and they have a tendency to offer loans at lower rates. Credit unions are exempt from federal taxation. Historically, credit unions specialized in providing automobile and other personal loans and savings deposits for their members. However, more recently credit unions have offered mortgage loans, credit card loans, and some commercial loans in addition to checking accounts and time deposits.

Credit unions, SLAs, and savings banks help encourage thriftiness by paying interest to consumers who put their money in savings deposits. Consequently, credit unions, SLAs, and savings banks are often referred to as thrift institutions.

Text-Based Activities

I Answer the following questions:

1. What do banking institutions include?
2. Why are commercial banks named so?
3. What is the objective of commercial banks?
4. Have commercial banks been the largest source of loans to small businesses?
5. Are national banks supervised by the government?
6. Who owns savings and loan associations?

7. What services can SLAs and MSBs offer?
8. Do credit unions offer lower interest on deposit products than banks or thrifts?
9. What have credit unions offered recently?
10. What encourages consumers to put their money in saving deposits?

II Render the text in English.

Первый в США сберегательный банк, которым владели вкладчики, был открыт в 1816. В течение долгого времени такие банки регистрировали только в 18 штатах, в основном на Северо-Востоке. К концу 1980-х после того, как в 1980 были разрешены федеральная регистрация сберегательных учреждений и их акционирование, в США было уже около 1 тыс. сберегательных банков. Постепенно развивались и ссудо-сберегательные ассоциации, объединявшие главным образом жителей западных штатов, стремившихся построить или приобрести дом. Многие сберегательные банки прогорели в период Великой депрессии (Great Depression). С 1934 вкладчики получили возможность страховать свои сбережения на сумму до 40 тыс. долларов в Федеральной корпорации страхования депозитов (Federal Deposit Insurance Corporation) (ныне до 100 тыс. долларов), а вкладчики ссудо-сберегательных ассоциаций - в Федеральной корпорации страхования ссудо-сберегательных ассоциаций (Federal Savings and Loan Insurance Corporation) . Начиная с 1970-х вследствие инфляции и конкуренции коммерческих банков, плативших больший процент по вкладам, число сберегательных учреждений сократилось. В 1980-90-х более 1200 из них испытывали финансовые затруднения, и федеральная помощь им превысила 80 млрд. долларов. В 1989 решением Конгресса функции Федерального совета банков жилищного кредита (Federal Home Loan Bank Board) были переданы Управлению надзора за сберегательными учреждениями (Office of Thrift Supervision), а обанкротившаяся Федеральная корпорация страхования ссудо-сберегательных ассоциаций была заменена Страховым фондом сберегательных ассоциаций (Savings Association Insurance Fund) под эгидой Министерства финансов (Department of the Treasury).

Dialogue

Read the dialogue in parts.

Student: What type of bank is this?

Banker: We're a commercial bank.

S.: Does that mean that your services are limited?

B.: To some extent. For instance, we can't offer the fiduciary services that a trust company can.

S.: What are they?

B.: Well, they have to do with the administration of trusts and estates.

S.: Suppose I wanted to buy or sell some securities. Does your bank handle such transactions?

B.: Yes, through our brokerage house.

S.: Is your broker a member of the stock exchange?

B.: Yes.

S.: This is a state bank, isn't it?

B.: That's right. Do you offer fewer services than a national bank?

B.: No. In general, the only difference is that a state bank gets its charter from the state it's in, and the national bank gets its carter from the federal government in Washington, D.C.

S.: Are there banks that don't offer regular commercial services?

B.: Oh, yes. For example Savings and Loan Associations and the Federal Land Banks are only lending institutions.

S.: Would you say a savings and loan association is a bank?

B.: No. I'd rather call it a financial institution.

S.: How about a credit union?

B.: That's not really a bank, either.

S.: And a finance company is something entirely different.

B.: Yes.

Answer the following questions:

1. What regular services does a commercial bank offer to its customers?
2. What is the difference between a national bank and a state bank?
3. Which institutions deal with fiduciary services?
4. What do you understand by fiduciary services?
5. What is the job of a broker?
6. Where are brokerage transactions concluded?
7. What services are offered by:
   - Savings and Loan Associations;
   - Federal Land Banks;
   - Credit Unions?

Text 3.2 RETAIL BANKS

(1) As regards classic banking business, the direct ancestors of the modern retail banks were the London goldsmiths of the mid-17th century. Goldsmith firms gave promises to repay deposits of coin on demand in the form of bearer documents. These passed from hand to hand and thus became the first English bank notes. In time, goldsmiths extended their services to the provision of loans. They undertook transactions in both notes and coin, settling their various accounts through balances held at the Bank of England. This relationship with the Bank of England, through the discount house intermediaries, is essential to today's banking system in Britain.

(2) Outside London, many provincial banks were formed in the second half of the 18th century, with about 700 in existence in the early 1800s. During the Victorian period high casualty levels were suffered among the small privately owned banks, particularly during the successive financial crises in the middle of the century. For example, of the 59 banks established in 1836, only the Midland (today one of the largest retail banks) survived 20 years later.

(3) The banks in the rural area, the "country banks", had more depositors than borrowers and used London banks as agents to make loans to borrowers in developing industrial areas. They did this mainly by discounting bills of exchange.

The system originated the London discount market and played an important part in financing the industrial revolution. During the middle and late 19th century the growth and prosperity of industrial firms led in turn to the amalgamation of smaller banks and growth of large networks of banking branches.

By the 1920s and 30s banking was dominated by a small group of clearing banks competing for domestic and international business and extending their services and numbers of branches across the country.

(4) Alongside their core banking operations, banks offer a wide range of services including merchant banking, leasing, factoring and venture capital, credit and debit cards, home banking, general insurance, life assurance and pensions, securities and foreign exchange dealings, executor and trustee services.

The retail banks have been major competitors of building societies in the provision of home loans and in winning the custom of the nation's depositors.

(5) In the more competitive environment, the major banks have been striving to develop a distinctive style and marketing approach to attract more business in the personal sector, and from the small and medium-sized businesses that have been their traditional customers. As part of a programme of specialisation they have invested millions of pounds in new automated teller machine (ATM) technology and other information systems; upgrading and computerising branch networks; marketing new business services; market segmentation strategies; exploring and developing rich markets; also investing in major advertising campaigns, sponsorship and public relations.

(6) The major retail banks in Britain offer the full range of financial services described above to individuals and companies through more than 11,500 branches. The six largest banks are Barclays, National Vestminster, Midland and Lloyds (the "Big Four"), TSB Bank and Abbey National (previously a leading building society). Other major British banks are the Bank of Scotland, the Royal Bank of Scotland and Standard Chartered. Together with the Bank of England, Northern Bank (of Australia), Yorkshire Bank, Cooperative Bank, Girobank, Citibank, Coutts and Clydesdale banks, these are the main retail banks in the clearing system. Two of the leading building societies, Halifax and Nationwide are also in the clearing system.

(7) As the principal providers of finance for small businesses, the retail banks support a loan guarantee scheme under which 85 per cent of the value of loans to small companies is guaranteed by government. A substantial proportion of retail bank business is in international operations (including eurocurrency activities and overseas subsidiaries).

Text-Based Activities

I Complete the following sentences on the basis of the information given in the text.

1. The retail banks have become ...
2. As a part of a programme of specialization the retail banks have invested ...
3. Most staff destined for supervisory or management positions take ...
4. The major retail banks in Britain offer ...
5. The retail banks support ...

II Fill in the missing words: *goldsmiths, face, borrowers, investing.*

1. In recent years the entire ... of the British banking system has fundamentally changed.
2. The direct ancestors of the modern retail banks were the London ... of the mid-17th century.
3. The banks in the rural area, the "country banks", had more depositors than ... and used London banks as agents to make loans to ... in developing industrial areas.
4. Since the late 60s, particularly in the last 10 years, the ... of banking in Britain has radically changed.
5. The banks are also ... in training and support their staffs continuing professional education.

III Insert the prepositions: *at, by, in, of, for.*

1. The major retail banks in Britain offer the full range ... financial services.
2. ... the end of 1993, six largest banks handled nearly 85 per cent of personal bank accounts in Britain.
3. ... the 1920s and 30s banking was dominated ... a small group of clearing banks competing for domestic and international business and extending their services and numbers of branches across the country.
4. Britain's retail banks underpin the superstructure of London's financial and money markets and provide the financial support ... Britain's private sector businesses.
5. Many provincial banks were formed ... the second half of the 18th century outside London.

IV Answer the following questions:

1. What is Retail Bank?
2. When did retail banks begin operating?
3. Who were founders of retail banks?
4. How has the entire face of the British Banking system changed in recent years?
5. How has the retail banks activity changed since the mid-17th century?
6. What was the activity of retail banks during the Second World War?
7. Why have, the retail banks become major competitors of building societies?
8. What services do retail banks offer?
9. What technology and other information systems have retail banks invested millions of pounds in?
10. What are the six largest banks in Britain?

V Make up sentences using one of the following word combinations.

Capital and credit markets, the gradual process of deregulation, advertising campaigns, public relations, full range of financial services, technological innovation, competitive environment, marketing approach, traditional customers.

Text 3.3 MERCHANT BANKS

(1) The traditional role of merchant banks was to accept bills of exchange to provide funds for trade; also to raise capital for sovereign bodies and British companies through the issue of bonds and other securities. These activities continue but the role of Britain's merchant banks has diversified enormously in recent years. Although they

are called "banks" they are more involved in, providing a range of professional services, such as corporate finance and investment management, than in lending money.

(2) Today, Britain's merchant banks are probably best known for their expertise in corporate finance services conducted in the City of London and through a growing network of overseas subsidiary companies. In the last 15 years the leading merchant banks have developed special expertise in cross-border transactions serving international business. Many are active in the capital markets and help companies, sovereign and quasi-sovereign bodies to raise finance by issuing sterling bonds, eurobonds, equity (often by means of rights issues) and other financial instruments. They also provide loans, acceptance credits and other banking facilities. A major part of their business is to provide expert advice and financial services to British and overseas companies especially involving mergers, takeovers and other forms of corporate reorganization.

(3) Merchant banks conduct investment management and the management of unit trusts working on behalf of large corporations, pension funds and individuals. They have become specialists in foreign exchange dealing and several are active in the commodities and bullion markets, particularly, in gold and silver. Some offer special professional services in diverse fields such as property asset management and development, insurance and oil exploration. The leading merchant banks have a powerful presence in international securities business after acquiring or creating stock broking firms. Conversely, as part of the process of integration within the institutions, a number of retail banks have set up or acquired merchant bank subsidiaries to deal in securities and to provide corporate finance, investment management and other services.

(4) Merchant banks in London and in Britain's principal cities are continually consolidating and developing their range of international financial services. A typical merchant bank will divide its activities into corporate finance, investment management, banking and securities, with the bulk of its income deriving from professional fees charged for these services.

For example, long established merchant banks such as Robert Fleming, Rothschilds and Shroder's have developed their professional portfolios to include special services in corporate finance, asset management, venture capital and other fields, offered through networks of international offices.

(5) The London Investment Banking Association (formerly the British Merchant Banking and Securities Houses Association) was formed in 1988, and is the principal trade association in Britain for firms active in the investment banking and securities industry. Its membership comprises almost 60 firms including most of the leading foreign banks and securities houses operating in the City of London.

Text-Based Activities

I Complete the following sentences on the basis of the information given in the text.

1. Merchant banks offer...
2. Merchant banks are located in…
3. Merchant banks deal in ...
4. The leading merchant banks have a powerful presence in ...
5. A typical merchant bank will divide …

II Fill in the missing words: corporate *finance, diversified, developed, capital markets, mergers.*
1. The role of Britain's merchant banks has ... in recent years.
2. The merchant banks are involved in providing a range of professional services, such as ...... and investment management.
3. In the last 15 years the leading merchant banks have ... special expertise in cross-border transactions serving international business.
4. Merchant banks are active in the ... ... and help companies, sovereign -and quasi-sovereign bodies to raise finance by issuing sterling bonds, eurobonds, equity and other financial instruments.
5. A major part of their business is to provide expert advice and financial services to British and overseas companies especially involving..., takeovers and other forms of corporate reorganization.

III Insert the prepositions: *on, in, of, for.*
1. Britain's merchant banks are best known ... their expertise in corporate finance services conducted in the City of London.
2. The leading merchant banks have developed special expertise ... the last 15 years.
3. The role of Britain's merchant banks has diversified enormously ... recent years.
4. ... behalf... large corporations, pension funds and individuals, merchant banks conduct investment management and the management of unit trusts.
5. Merchant banks ... London and ... Britain's principal cities are continually consolidating and developing their range ... international financial services.

IV Answer the following questions:
1. What is the traditional role of merchant banks?
2. What are Britain's merchant banks known for?
3. What do merchant banks provide?
4. What professional services do merchant banks offer?
5. What will a typical merchant bank divide its activities into?
6. When was the London Investment Banking Association formed?

V Make up sentences using one of the following word combinations.
Corporate finance, investment management, merchant bank, capital market, financial services, mergers, takeovers, on behalf of, bullion market, property asset.

Text 3.4 FINANCIAL INSTITUTIONS OF THE U.K.

(1) Banking and financial market operations in Britain involve a number of special institutions and financial markets which are increasingly integrating. Many banking and financial institutions are unique to Britain and offer highly specialized services to individuals, companies and sovereign bodies all over the world.

(2) ***The Bank of England*** in the heart of the City of London is Britain's central bank. It is banker to the commercial banks and to the Government; manager of the National Debt; "lender of last resort", regulator of monetary and credit conditions; and, not least, supervisor of the banking system.

(3) ***Commercial Banks.*** This is the broad title for institutions authorized under the Banking Act 1987 as deposit-taking institutions involved in the classic banking busi-

ness of taking deposits and lending money, both in the retail and wholesale markets. In Britain, they include the retail banks and institutions which offer banking services.

(4) ***Retail banks*** primarily serve individuals and small to medium-sized businesses. The major retail banks operate through more than 12,148 branches offering cash deposit and withdrawal facilities and systems for transferring funds. They provide current account facilities, including interest-bearing accounts; deposit accounts; various types of loan arrangement; and offer an extending range of financial services.

(5) ***Building societies*** started in the late 18th century to pool money to build houses and to buy land. They currently compete with the retail banks to attract savings from, and provide mortgage finance for, the personal sector. Today, they hold more savings than the other deposit-taking institutions. Building societies are "mutual" institutions, owned by their savers and borrowers.

(6) ***Merchant banks*** are so called because they originate from large merchants engaging in banking activity. Their traditionally important roles were helping foreign governments to raise loans and accepting Bills of Exchange but they are today involved in a range of services including corporate finance, foreign exchange dealings and securities trading.

(7) ***National Savings*** aids government borrowing via a range of savings instruments. These include fixed interest and index-linked Savings Certificates, First Option Bonds and Premium Bonds among others. Part of National Savings, the National Savings Bank, formerly the Post Office Savings Bank until 1969, was set up in 1861 offering deposit services to customers through some 20,000 Post Office branches. It does not operate in the same way as a retail bank or building society.

(8) ***The discount houses*** are unique to Britain and occupy a central position in the British monetary system. They have a number of functions: they receive the banking sector's liquid money — "at call and short notice"; act as financial intermediaries between the Bank of England and the rest of the banking sector; promote an orderly flow of short-term funds (about 1 billion pounds a day) between authorities and the banks; and lend to the Government by guaranteeing to tender for the whole of the weekly offer of Treasury Bills. Discount houses trade in the wholesale money market and parallel markets dealing in bills of exchange, Treasury, local authority bills, commercial bills, short-term government stocks, and certificates of deposit (CDs) which make up their main assets. Their liabilities are mainly in the form of short-term loans.

In return for acting as intermediaries, the discount houses have privileged daily access to the Bank of England as "lender of last resort".

(9) ***The investing institutions*** collect savings drawn from the personal sector and invest them in securities and other assets. The main investment institutions are insurance companies (providing general and life policies) together with insurance broking firms, pension funds, unit trusts and investment trusts. Together, they represent a massive pool of funds for investment.

(10) The City of London has long been the nexus of international activity in a number of highly organized ***financial markets***. These include the London Stock Exchange, the sterling money and bond markets; the foreign exchange markets; eurocurrency markets; financial futures; bullion, commodities; shipping and freight.

Text-Based Activities

I Complete the following sentences on the basis of the information given in the text.

1. Banking and financial market operations in Britain involve …
2. Many banking and financial institutions in Britain offer ...
3. The Bank of England is ...
4. Commercial Banks are ...
5. Retail Banks are ...
6. Building societies compete ...
8. Merchant banks are …
9. The National Savings Bank is ...
10. The Discount Houses are…

II Fill in the missing words: *retail*, *account*, *aid*.

1. Commercial Banks include the ... banks and institutions which offer banking services.
2. Retail Banks provide current ... facilities, including interest-bearing accounts, deposit accounts.
3. National Savings ... government borrowing via a range of savings instruments.

III Fill in the missing prepositions: *in*, *to*, *of*.

1. Some banking and financial institutions offer highly specialized services ... individuals and companies all over the world.
2. There were 518 authorized banks including retail banks, merchant banks, branches ... overseas banks, discount houses and banking subsidiaries ... both banking .and non-banking institutions from Britain and overseas.
3. Retail banks primarily serve individuals and provide small scale services ... medium-sized businesses.
4. Building societies started ... the late 18th century to pool money to build houses and to buy land.

IV Answer the following questions:

1. What do banking and financial market operations in Britain involve?
2. What is the Bank of England?
3. What do commercial banks deal with?
4. What do retail banks serve and provide?
5. When did building societies start their activities?
6. What do merchant banks originate from?
7. What are traditionally important roles of merchant banks in Britain?
8. What is the National Savings Bank?
9. How many discount houses does the Discount Houses Association consist of?

V Make up sentences using one of the following word combinations:

The Bank of England, Commercial banks, retail bank, building society, international bank, merchant bank, National savings.

Text 3.5 FINANCIAL INSTITUTIONS OF BELARUS

(1) The disintegration of the Soviet Union and the disestablishment of the USSR Gosbank (State Bank -former central bank) brought about a dramatically new situation in the banking sector in all states of the former Soviet Union (FSU). It was necessary to find an answer to the question: What will be the future of the monetary systems in each of the new states?

(2) By the end of 1993, the Soviet-era monetary system had ceased to exist. All former Soviet Union states, including the Republic of Belarus, developed their own monetary systems governed by the national (central) banks that were set up on the basis of branches of the FSU Gosbank.

All aspects of banking activity in Belarus are regulated by a number of documents: the Belarusian Constitution, The Law on the National Bank of the Republic of Belarus, the Banking Code of the Republic of Belarus, The Law on Electronic Documents and others.

(3) The National Bank of the Republic of Belarus (NBRB) represents the first level of the national banking system. It was established in 1991 as institution independent in its activities and subordinate to the Parliament only. Its main objectives are to ensure the internal and external stability of the country's official monetary unit, to support stable prices; to ensure the liquidity, solvency and reliability of a stable monetary (banking) system, to support the overall economic policy of the government.

(4) Pursuant to Article 136 of the Belarusian Constitution the National Bank implements the monitory policy of the government; regulates lending relationships and monetary circulation; determines settlement procedures; has the sole right of money issue.

The National Bank ensures the printing of banknotes and minting of coins and has the right to issue banknotes of new design, phasing out old notes as they wear out. The central bank manages the supply of banknotes and coins, i.e. it replaces damaged banknotes and coins, withdraws worn or obsolete banknotes and coins from circulation, destroys them and replaces them with new ones.

The NBRB keeps correspondent accounts of banks participating in the payment system, and offers cash and settlement services to banks. Being a state bank, it maintains state budget accounts and provides settlement services to government agencies and organs of state administration. It also offers banking services to foreign governments, central banks and financial institutions, as well as international organisations of which Belarus is a member.

(5) The NBRB issues regulatory acts and other directives which are binding on all economic entities, commercial banks and other credit institutions in Belarus, regardless of their form of ownership. In the area of payment system development the central bank's responsibilities are defined by Clause 30 of the Banking Code, under which the central bank determines the major directions for enhancing the domestic payment system, defines rules, methods, terms and standards for executing cash and non-cash settlements, and penalties for violating these regulations. It maintains an in-house data archive for storage and processing of statistical information and for providing required legal evidence on events and operations occurring in interbank settlements. The gold reserves of the National Bank amount to 15.2 tons (as of February 2004).

(6) The second level of the national banking system includes commercial banks and non-bank financial and credit institutions. Today there are 30 banks registered in Belarus, 24 banks of thereof are banks with foreign capital participation, including 7 wholly foreign-owned banks and 10 with 50% of foreign capital. On the average, the Republic has one credit institution per 18,000 people.

According to the current legislation the commercial banks enjoy a high degree of independence in choosing the main spheres of their activities. As regards their form, the commercial banks may be both state-owned and non-state banks set up by founders (legal and physical persons) on a share or contribution basis.

(7) The commercial banks offer their customers a wide range of services, including payment services for individuals and legal entities, and make interbank payments in their own name, issue national system cards “Belcard” and cards of international banking associations VISA and EUROPAY/MASTERCARD. Most of them operate in both the retail and wholesale financial markets. The six largest banks of Belarus, as regards their total assets, are "Belarusbank", "Belagro- prombank", "Belpromstroybank", "Priorbank", "Belvnesheconombank", and "Belbusinessbank". Their share in the total amount of assets of the operating banks of the Republic constitutes about 85%.

(8) Other financial institutions of Belarus are a state-owned Belarus Interbank Settlement Centre, which acts as a payment system operator and interbank transfer data processor; an Interbank Currency and Stock Exchange - the main instrument of the legal currency market and a Central Government Securities Depository.

The Republic is a member of the International Monetary Fund, the World Bank, and the European Bank for Reconstruction and Development. In February 1993 Belarus set up the Inter-Bank Currency Exchange.

Text-Based Activities

I Answer the following questions:

1. What regulates all aspects of banking activity in Belarus?
2. Does the National Bank of Belarus represent the first or the second level of the national banking system?
3. When was the National Bank established?
4. What are its main objectives?
5. What are the National Bank’s main activities?
6. What does the second level of the national banking system include?
7. What do commercial banks offer their customers?
8. What are other financial institutions of Belarus?
9. When did Belarus set up the Inter-Bank Currency Exchange?

II Make a report on the Financial Institutions of Belarus.

UNIT 4 THE STRUCTURE OF BANK

Text 4.1 GENERAL INFORMATION

(1) The banking industry is a complex of financial institutions of different sizes and opportunities offering a different range of services to a banking community.

Whatever size and category a bank requires the optimum form to service the needs of its clients effectively. In the course of historical development commercial banks have formed the organization that guarantees the best performance, meets the business pattern and ensures continued prosperity of banks.

(2) A great number of banks are small and medium size banks. They have close links with local businesses and reflect changes of the regional economic environment. Such banks attract consumer-oriented deposits, make small business loans, pay cheques and perform other related services to the public. Such banks act as agents for their customers purchasing and selling securities for trust-account holders if they supply trust services or operating cash management for a corporate customer. When a bank begins to grow, it offers new facilities necessary to meet new challenges. With them come new sectors and departments shaping the organization form within the framework of the law of a business corporation. Large financial institutions concentrate upon servicing corporate customers. They are full-service banks that provide a full range of services nationwide and internationally. Their service area finds its manifestation in a sophisticated organization chart which is a clue to its policy and management principles. Depending on the size and type of business each bank has a different internal organization chart. However, the following divisions should be part of every commercial bank: lending division, accounting and treasury, finance operation division, including FX operations and money market operations, investment division, marketing division. Each division is broken down into departments sections and groups or teams.

(3) The organization chart of a small bank reminds of a pyramid with different subordination. The top of the pyramid is made by the chief administrative officers including the Chairman of the Board, the President who runs the bank from day to day and Senior: Presidents who are in charge of the major divisions. Here is am example of a pyramidal structure within the organization chart.

Chief Administrative Officers

Vice-President Lending Division	Vice-President Accounting Treasury	Vice-President Finance Division	Vice-President Investment Division	Vice – President Marketing Division
Department Managers: Consumer Loans Commercial Loans	Department Managers: Accounting Treasury	Department Managers: FX market operations Money market operations	Department Managers: Personal Trusts Business Trusts	Department Managers: Advertising

Text-Based Activities

Look at the organization chart and describe it in terms of the banking facilities that supply its division and departments. Make use of the following words:

to be responsible for monetary policy
to monitor, to run
to represent lending facilities

to be in charge of
to advise and assist
to exercise general supervision of
to formulate policy and control the bank's activities

Text 4.2 CAREERS IN BANKING

Read the text below and make a list of major career opportunities and a list of relative duties and responsibilities.

(1) Banking is not a profession dedicated only to entering an endless series of figures in ledgers and processing or analysing balance sheets. Primarily, banking is a profession that deals with people and their problems. Therefore banking is a profession for those who have a flair for people as well as a flair for figures. Banking provides a broad spectrum of work to allow an incipient banker to switch careers without changing a bank. The employment options in banking are abundant and various. The opportunities to move up the career ladder depend on a number of factors. Throughout their career executives, officers and specialists keep in touch with modern technique and sophisticated means attending extension courses inside and outside the bank. The major areas of work are the servicing of internal customers, domestic customer banking and special functions such as administration, personnel and computers. All of them need employees with sufficient educational background, intelligence, clear thinking, human understanding and nerve.

(2) A bank manager who is responsible for a branch of business usually begins his career as a loan officer and acquires skills and experience going through several jobs. Bank loan officers make initial contacts with new customers, accept their loan applications and assist them how to fill out a loan requests.

(3) A credit analyst and a loan workout specialist are professionals determining the business of lending. An analyst's duties are to assess each loan applicant's financial position and advise the bank's management on the loan prospects. A loan workout specialist is an experienced and skilled specialist who is supposed to investigate each problem loan, inquire into the causes of bad loans and find solutions how to recover the bank's funds. Both a credit analyst and a loan workout specialist must have a solid background in accounting, financial statement analysis, law and economics.

(4) Managers of the accounting and operations division control and direct one of the leading business areas concerned with financial planning through the interpretation and use of financial data for one thing. They are in charge of processing checks and clearing on behalf of their customers for another. Managers of the operations division of a bank supervise the work of tellers and handle customer's problems with their checking accounts. The maintaining and improving of the bank's computer facilities are also in their line of business as well as security problems. The scope of their business demands that managers in the bank's accounting and operations division should have a solid training in the field of business and financial management and sufficient knowledge in up-to-date computer network systems. The lowest link of the division — a teller is a bank employee who accepts deposits, cashes checkes and per-

forms other banking services for the public. Their duties also include sorting and filing deposit receipts and withdrawal slips. Bank tellers check account balances. They have to balance their own cash position at the end of the working day. The range of work requires mental, emotional and nervous strain. Teller's professional contacts with customers imply friendly, patient and considerate attitude to the customers. Most banks hire as tellers people with high school, college or even incomplete University training.

(5) Auditing and Control Personnel in a bank's accounting and audit department are well trained specialists. Their proficiency and expertise are unquestionable. As professional accountants they have a legal right of access to the record and accounts. Their primary duty is to find out and state the true financial position by examining books and records so as to be able to avoid losses and assist the bank management in improving bank efficiency. Undoubtedly, only highly qualified specialists in financial accounting and auditing can cope with the objectives. Financial Analysts working in a bank's auditing and planning department analyse the bank performance, look after the interests of a bank, produce a forecast of future performance and provide ways and methods of improvement.

(6) Candidates for senior posts have to acquire a variety of managerial experience and those who show outstanding potential are likely to reach senior executive level before they are 40. The growth in banking services has created a demand for people capable of handling and managing developing banking services. Trust Department specialists, investment specialists, foreign exchange traders, personnel managers and others working to meet common challenges for the services of their departments do not exist in a vacuum. Banking is a one-company career. Once the basic training has been completed career development depends on the individual. A certain stage in career progress depends on individual abilities and reflects neither age nor previous academic record. Candidates for senior posts must show their outstanding potential, desire and strong character.

Text-Based Activities

<u>I Consider the visual representation of the organization chart of a bank and match the jobs and positions with the departments and divisions.</u>

<u>II Enumerate personal and professional features that contribute to a successful career ladder.</u>

<u>III Read the ads below and make up your own advertisements for any of the jobs described in the above text.</u>

Auditor - Snr Internal Auditor - Investments & Asset Management/Investment Banking	
Category:	Banking & Finance
Location:	UK, London
Type:	Permanent
Area:	Internal Audit
Start date:	ASAP depending upon notice period
Reference No.:	CT/AU/2365
Description	

Internal Auditor is required for my client who is a global investment asset management firm who provides asset management services in developed and emerging equity and bond markets on behalf of institutional, retail and private clients on a worldwide basis. They are currently searching for an internal auditor to join their highly skilled and specialist internal audit function.

You will have previous experience of working within this sector or have had some exposure to it whilst working within the Top 10 firm.

You will have excellent communication and influencing skills and be keen to use your sharp commercial acumen to actively influence policy and the bottom line. You will be liasing internal departments and managers of differing seniority and will need to adapt your approach quickly and with ease.

You will be highly ambitious and will welcome the opportunity to use this role as a stepping stone into a line management/business role when the time is right.

As this client has global interests, there will be 10-20% international travel to locations including Hong Kong, Tokyo, Frankfurt and Paris to name but a few.

For more information on the role, please contact Claire Tiley on clairetiley@morgan-west.co.uk

THE INTERNATIONAL FINANCE CORPORATION,
Member of The World Bank Group
is looking for experienced and motivated candidates to work in its regional offices in Brest, Gomel, Grodno, Mogilev, Vitebsk as Regional Coordinators

Qualifications:

- University degree in economics or business;
- At least 2 years' experience in a consulting firm or international organization, preferably in the area of management, business development services, or business planning;
- Written and spoken English language proficiency required.

Send resume by September 16, 2006 by fax: (017) 22-74-40 or
e-mail: CEBelarusMailboxffife.org

Assistant Consultant / Consultant, Investment Management Tax - Edinburgh

Category:	Taxation
Location:	UK, Scotland
Type:	Permanent, Part-Time
Disciplines:	Investments/Pensions
Sectors:	Audit & Prof. Services
Reference No.:	PWC/TX00777

Description

PricewaterhouseCoopers LLP provides industry-focused assurance, tax and advisory services for public and private clients. More than 130,000 people in 148 countries connect their thinking, experience and solutions to build public trust and enhance value for clients and their stakeholders.

Job Description

PricewaterhouseCoopers is the leading provider of audit, accounting, business advisory, tax and consulting services to financial services organisations around the world. Developing creative tax strategies is imperative in any business but critical in financial services where cost competitiveness and product design are key to survival. Our global representation in the industry enables us to provide our financial services clients with a broad range of tax services which contribute to their success.Due to the growth in our investment management tax practice, we now require an enthusiastic individual to join our investment management tax team in Edinburgh.

Requirements

Key attributes required are:
- desire and ability to produce work to the highest standard
- enthusiasm and commitment

- excellent project management skills
- strong interpersonal skills
- comfortable working in a team environment
- interest in working with funds and fund management companies (experience of the funds industry would be advantageous, although full training will be provided)

Responsibilities

We combine compliance for fund management companies and for onshore and offshore funds with a successful consulting business.

The role would therefore include preparation/review of corporation tax computations and tax audit provisions (depending on experience), plus tax consulting work for funds and fund management companies.

Part time hours may be available.

UNIT 5 BANK SERVICES

Text 5.1 TYPES OF BANK SERVICES

(1) Banks are among the most important financial institutions in the economy that produce and sell financial services. In fact banks are those financial institutions that offer the widest range of financial services of any business firm in the economy. Their success or failure depends on their ability to identify financial services to the public demands, produce those services efficiently and sell them at a competitive price. Banking covers so many services that it is difficult to define it. Most banks offer a combination of wholesale and retail banking, i.e. they provide large-scale services to companies, government agencies and other banks and small-scale services to the general public respectively. Both types of banking, however, have three essential functions. They are:

- deposit function — receiving customers' deposits and offering interest-bearing deposits.
- payments function — making payments on behalf of customers for their purchases of goods and services.
- credit function — lending and investing money.

There are some traditional services that banks offer.

(2) Carrying out currency exchange. History shows that one of the first services offered by banks was currency exchange — a bank stood ready to trade one form of currency for another in return for a service fee. In today's financial marketplace trading in foreign currency is usually carried out by the largest banks due to currency risk and the expertise needed to carry out cash transactions.

(3) Safekeeping of valuables. Customers leave articles of value, locked boxes, wills and many other things in bank secure vaults for safety. The customer should lock boxes and seal parcels before he hands them in to the bank. The banker will issue a receipt if so required. The banker hands them back only against a signature by his customer or a properly-appointed agent whom the banks knows. Some banks maintain a safe deposit service where the customer himself puts his documents pr articles of value into his box in the strong room or takes them out. He alone has the key to his box. The bank keeps duplicate keys in case of emergency, but does not use them except in the presence of the customer or by his express authority.

(4) Trust service. For years banks have offered to manage the financial affairs and property of individuals and business firms in return for a fee. This property management function is known as trust services. Most banks offer both personal trust services to individuals and families and commercial trust services to corporations and other businesses.

Banking is not static business today. Banks are undergoing sweeping changes in function and form. Among the newest services offered by banks are

(5) Financial Advising. Customers have long asked for financial advice, particularly, when it comes to the use of credit and the saving and investing of funds. Many banks today offer a wide range of financial advisory services, from helping to prepare tax returns and; financial planning, to consulting for business managers and checking on the credit standing of firms and individuals who deal with one of the bank's business customers.

(6) Cash Management. Over the years banks have found that some of the services they provide for themselves are also valuable for their customers. One of the most prominent examples is cash management services, in which a bank agrees to handle cash collections and disbursements for a business firm and to invest any temporary cash surpluses in short-term interest-bearing securities and loans until the cash is needed. While banks tend to specialize mainly in business cash management services, there is a growing trend today towards offering similar services for consumers.

(7) Selling Insurance Policies. Most banks either offer selected insurance policies to their customers or have plans to offer insurance services in the near future. They hope to be able to offer regular life insurance policies and property-casualty policies, such as auto or home owners' insurance.

(8) Offering Security Brokerage Services. In today's financial marketplace many banks are doing their best to become true "financial department stores". This is one of the main reasons banks began to market security, brokerage services offering their customers the opportunity to buy stocks, bonds, and other securities without security dealers or brokers.

Text-Based Activities

I Decide whether there is any evidence in the passage for the following statements. If there is, note it down and elaborate on it.

1. Banks play a crucial role in the economy.
2. Foreign exchange operations are mostly carried out by wholesale banks.
3. Banking is undergoing sweeping changes.

II Make a list of services a) an individual client would seek; b) a wholesale client would require. Try to arrange them in order of their importance. Support your point of view.

III Be ready to render the passage in the form of a lecture.

Text 5.2 ACCOUNTS

(1) People have more choices than ever before when they deposit money today. Many financial institutions, such as banks, savings and loan associations and credit

unions, offer different types of accounts. The normal banking account is *the current account*, running from day to day. A balance is shown at the end of any day on which there has been a debit or credit entry. No interest is normally allowed on current account. The bank sends its customer statements of the account quarterly half-yearly, or more often if he wishes. The account may remunerate the banker because a good average credit balance is kept but if it does not a commission charge may be debited to the account quarterly or half-yearly.

(2) If a current account is defined as an account which is opened so cheques may be drawn on it, then *a deposit account* can be defined as an account which is open to earn interest. Deposit interest is paid at a rate determined by the bank's base rate. No cheques are supposed to be collected from deposit account holders and no book is issued. Withdrawals are nominally at seven days' notice, but can be obtained on demand. Interest is credited to the current account, if there is one, half-yearly; otherwise it is added to balance of the deposit account. Interest rates may be fixed or variable; they may be simple or compounding. The annual simple interest rate states how much money the bank will pay on a deposit at the end of one year without compounding. However, the interest can be compounded, that is, interest can be earned on accumulated interest as well as the amount initially deposited.

(3) Accounts can be *single ownership accounts*, that is, owned by one person, or *joint accounts*, that is, owned by two or more persons. A single ownership account holder can give a person power of attorney, the right to withdraw funds from the account.

(4) To open a bank account a client has to give the bank some ground information, such as a) full name and address; b) his/her occupation, the employee's name and address.

Two references are normally required, and the referees must themselves be considered of satisfactory status. Most important specimen signature is given. Any signature on an order to the bank must always be the same as this specimen.

Text-Based Activities

I Decide whether the following statements are correct.

1. Banks operate for profit, that’s why they try to attract all kinds of new customers.
2. The bank charges its clients a commission fee for opening current account.
3. The deposit account is open to earn interest.
4. Interest rates depend on the type of the account.
5. The single ownership account can be used only by its holder.
6. To open a bank account a client has to produce his employee's reference.

II Make a list of questions you would ask when opening a bank account.

Dialogue

Virginia Clary, investor: I have some funds on hand, and I'm wondering whether I ought to put it in a savings account.

Woods Palmer, banker: It's a good idea, if you want to keep your investment fairly liquid. And you might also think of a time deposit.

V.C.: What's the difference?

W. P.: Well, first of all, your time deposit is for a specified term. But you can make withdrawals from your savings account at any time, although as much as thirty days' notice of withdrawal may be required.

V.C.: Do they draw the same rate of interest?

W. P.: We pay the maximum 4% per annum at maturity on a one-year time certificate. Interest on a savings account accrues at the rate of 3%.

V.C.: How do you figure the interest on a savings account?

W. P.: It's compounded and credited to the account semiannually.

V.C.: You mean added to the principal?

W. P.: Yes, and we issue you a passbook on your savings account in which each deposit and withdrawal is entered.

V.C.: Is either type of account transferable?

W. P.: Only time certificates.

V.C.: Are these deposits insured?

W. P.: Yes, we're a member of the Federal Deposit Insurance Corporation.

Speaking

Act out the imaginary conversation with a bank employee and a client.

A. You work at a bank and interview a client who wants to open a business account with your bank in the first section below is some information about the client's company which you already have. In the other is the additional information you need to find out. Start by checking the information given using statement questions. The customer can also ask questions about the bank.

Information about company	Name: Robotics Address: 81, Mc Cormick St, Skokie , Illinois, USA Business phone number: (847) 982 5092 Fax (9847) 676 7323 Legal status: Inc. Activity: Hardware manufacturer
Information to find out:	Number of employees How they are paid Connected companies What services the new business account holder wants Type of account Frequency of statements of account

B. Take part of the company's manager who wants to open a business account with a bank in the first section below is some information about your company. In the other is the additional information you want to find out about the bank.

Information about company	Name : Robotics Address: 81, Mc Cormick St, Skokie , Illinois, USA Business phone number: (847) 982 5092 Fax (9847) 676 7323

Legal status: Inc.
Activity: Hardware manufacturer
Number of employees: 2000 worldwide
How they are paid: credit card
Connected companies: America Online, Compu Serve,
Bank services required: automated bankroll services, payment services, current account, monthly financial statements

Information to find out	Bank standing Credit line

Text 5.3 DEPOSITING MONEY WITH A BANK

(1) There are two general reasons for using a bank account. The first and most common is the convenience and safety provided by a current account at a bank. The second is that small and perhaps regular surpluses are available to be saved, and for this purpose a bank provides deposit accounts.

A deposit account will not offer a high rate of interest and would not be the best way to save large sums of money for any long period of time, but it is designed to make saving simple, convenient and safe. It is especially appropriate for those who may save small amounts from time to time without any planned regularity or for those who wish to save for a particular purpose in the immediate future, for example for annual holidays or for the purchase of a major item such as a car.

(2) Most customers of a bank who have opened a deposit account will also have a current account and this makes the transfer of amounts of money from one to the other an easy matter. Regular payments into a deposit account can be made through a standing order to the bank who will automatically transfer the agreed amount according to your instructions. Other payments are made on standard forms but it is most convenient and provides a useful record if the depositor uses a paying in book. Interest is calculated every six months and added to the account. The rate of interest varies from time to time and is publicly advertised in any bank. Because the bank uses money deposited with them to lend to others it normally requires about seven days notice of intention to withdraw money from a deposit account, but unless there is a heavy demand for money they are not likely to insist on this and cash is often immediately available to those who wish to withdraw it. There is an assumption that such notice was given and you would lose seven day's interest on the money.

(3) The increasing need for security and the use of computers in wage payments have combined to make it more common to have a bank account than to be without one. This kind of account is a current one and its most common use is a single regular payment in either a weekly wage or a monthly salary and regular payments out to meet the normal everyday expenses. Most payments are still made by cheque although the use of the standing order or the direct debit is becoming very common. It is normally expected that a current account will remain in balance and customers who regularly maintain an agreed minimum balance are often given the services of the

bank without charge. In general, however, charges are made which vary with the size of the balance, the amount of use of the bank's services and the number of transactions. If the account is overdrawn a further charge, which is interest on the overdrawn amount, is also made.

Overdrafts are not permitted automatically and anything other than a small temporary overdraft would have to be by agreement with the bank manager. Such a facility is often useful particularly when there is a short term disbalance between income and expenditure. On the other hand, since money in a current account does not attract interest, it is not a good idea to maintain large cash balances, these would be Letter transferred to a deposit account or to an alternative form of saving.

Text-Based Activities

I Answer the following questions:

1. What are the two main reasons for opening a bank account?
2. Which type of account is used by those who wish to save?
3. What kind of saving is this type of account most suited to?
4. What is a standing order?
5. Why does a bank sometimes need notice of intention to withdraw money from saving accounts?
6. What is the most common use of current accounts?
7. Why are some customers not charged for the facility of a current account?
8. Why is it not a good idea to retain large balance in a current ac-count?

II Use the words in brackets as a guide; explain the meaning of the following terms:

deposit	(put into, an account)
withdrawal	(an account, remove from)
standing order	(transfer, automatic, bank, customer, instructions)
joint account	(two or more people, owned by)
statement	(a customer's deposits and withdrawals, a record)
overdraft	(current account, balance)
interest	(the use of money, pay for)
notice	(one's intentions, an announcement of)
insurance	(loss, protection against, government agency or another specializing in)

III Choose the right answer:

1. «A current account» is:
   a) one which is available for the time being,
   b) one. in which savings are held,
   c) one which is used all the time for day-to-day transactions.
2. «A canceled cheque» means:
   a) worthless cheque,
   b) stamped to indicate that payment has been made,
   c) crossed cheque.

3. «A genuine signature» is:
   a) a person's name written by himself,
   b) a person's name written correctly,
   c) legible signature.
4. «An outstanding cheque» means:
   a) unpaid cheque,
   b) written but not yet presented for payment,
   c) overdue cheque.

Dialogue

Read the dialogue.

Cashier: Now this is the checking account ledger. Each page is a record of a customer's deposits and withdrawals.

Student: And you give a copy of this to the customer.

C.: That's right. That's his statement, which he receives with all his cancelled checks. Then he reconciles it with his own records.

S.: This one is a joint account, isn't it? And pretty active.

C.: Yes. it is.

S.: What's this debit?

C.: That's our service charge.

S.: I notice an overdraft here in April.

C.: I'm afraid we've had to remind this customer and his wife several times that they must keep a sufficient balance to cover all outstanding checks.

S.: Will 1 have to learn to recognize all our customers signatures?

C.: Yes, you will. Any check we cash must have a genuine signature. But we keep a file of them that you can refer to

S.: Will I be doing any posting of this ledger?

C.: No, I'm afraid. Not till you are employed in our bank.

S.: Well, suppose one has some funds on hand, I'm wondering whether he ought to put them in a savings account

C.: It's a good idea, if he wants to keep his investment fairly liquid. And he might also think of a time deposit

S.: What's the difference?

C.: Well, first of all, his time deposit is for a specified term, but he can make withdrawals from his saving accounts at any time, although as much as thirty days' notice of withdrawal may be required.

S.: Do they draw the same rate of interest?

C: The bank pays the maximum 4% per annum at maturity on a one year time certificate. Interest on a savings account accrues at the rate of 3%.

S.: How do you figure the interest on a savings account?

C.: It's compounded and credited to the account semi-annually.

S.: You mean added to the principal?

C.: Yes. And we issue each customer a passbook on his savings account in which each deposit and withdrawal is entered.

S.: Is either type of account transferable?

C.: Only time certificates.

S.: Are these deposits insured?
C.: Yes. We're a member of the Federal Deposit Insurance Corporation.

Answer the following questions:

1. What is a checking account ledger?
2. Why does the bank send a copy of the statement with all checks cancelled to every customer?
3. Are service charges debited or credited to an account?
4. What happens when a cashier notices an overdraft on somebody's account?
5. What does a teller have to do before he cashes a check?
6. What advice would you offer to a customer who has some funds on hand?
7. Why is it profitable to deposit your funds for a specified term?
8. How is the interest on a savings account figured?
9. Which type of account is transferable?
10. How are customer's deposits protected?

Text 5.4 LOANS

(1) The money deposited in a bank doesn't lie idle. The bank lends it out at interest. Making loans is the principal economic function of banks. The bank regulates its lending functions working out its loan policy. Such a policy gives loan officers and the bank's management guidelines in making loan decisions and in shaping the bank's overall loan portfolio. The written loan policy includes statement of the types, maturities, size and quality of loans. It also lists guidelines for reviewing, evaluating and decision making on customer loan application.

(2) There are several categories of bank loans that meet different objectives. They are real estate loans, financial institutions loans, commercial and industrial loans, loans to individuals, miscellaneous loans, lease financial receivables. The largest volume are real estate loans. A bank grants loans to individuals and businesses to construct and purchase homes, office buildings, shops, industrial structures. They are subdivided into construction loans and long-term mortgage loans on property. They include credit to purchase inventories of goods and raw materials to cover operating expenses and to finance new equipment. Next in importance are loans to individuals and families for living cost, medical expenses, automobile purchase, home appliances, vacation, education and so on.

(3) The rate of interest charged by the bank is a price of borrowing money. A bank makes a loan for a certain amount, over a certain period, at a certain rate of exchange, e.g. $2,000 borrowed towards the cost of a new car at 10% per annum. The bank may want its money (loan and interest) repaid by installments rather than all at once on the last day of the agreed period.

Text-Based Activities

Borrowing money

Consider the following situation. In pairs, ask and answer the questions about Anne's loan using the words in italics in the text above, like this:
e.g. How much money did Anne borrow? - £600.

Kevin *borrowed* £3600 from the bank to buy a car. In other words:

Kevin had a *loan* from the bank. The bank *lent* Kevin £3,600. Kevin had a *debt* of £3,600. Kevin *owed* the bank £3,600. Kevin is the bank's *debtor*. The bank is Kevin's *creditor*.

Kevin is *repaying* the loan over three years and he is paying *interest* on the loan at the rate of 10% per annum on a decreasing balance. In other words, in the first month he repaid £100 *capital* and £30 *interest* (10% x £3,600/12 months). In the second month, the *balance* on his capital repayment was £3,500 (£3,600—£100 he repaid in the first month), so he repaid £100 capital and £29.25 interest (10% x £3,500/12 months).

Anne had a loan of £600 from the bank. She paid it back over twelve months at a rate of 10% p.a. on a decreasing balance.

Text 5.5 INTERNATIONAL BANKING

Read the passage below and make lists of words and phrases to deal with:

- major services supplied by banks in international markets;
- organizational forms that international banks use to serve their customers.

(1) International banking has been practised for centuries and engaged in selling banking products across national borders. From the major trading centres around the Mediterranean Sea, Athens and Rome international banking has spread to other economic areas of Europe, Asia and America meeting the challenges of new rapidly developing markets. Nowadays former colonies have banking systems which are dominated by the branches of overseas banks. In the 1950-s — 1960-s the U.S. banks controlled major world markets in Western Europe, South and Central America. In the 1980-s the leadership in international banking passed to Japan owing to its strong economy and advanced technologies which strengthened the position of the Japanese Yen in the global money market and led to the dramatic rise in its financial power and prominence.

(2) International banks are the lending source of credit for multinational corporations and governmental units. They offer a complete line of financial services mostly centered around borrowing and lending short-term wholesale funds. Interest rates of short-term business credits are tied to some international base rate. The most popular rate of this type is LIBOR — the London Interbank Offer Rate, the rate at which banks offer to lend money to other banks in eurodollars. The major international lending organizations — The International Bank for Reconstruction and Development (IBRD), popularly known as World Bank and The International Monetary Fund (IMF) work closely but direct their attention to different areas. The World Bank provides developing countries with long-term, low-interest credit for industrial development. IMF pays external debts owed by countries with balance or payments deficits, rather than project financing.

International banking services cover a wide range of customer financial needs such as supplying foreign currencies, hedging techniques to deal with fluctuating currency prices and interest rates, cash management services and others. One of the most dynamic banking services is assistance with foreign mergers and acquisitions. International banks participate in syndicated loans provided by a group of international banks. International banks operate in forward markets where foreign currencies are traded for delivery at a later date.

(3) Foreign exchange banking and eurocurrency banking are important sections of international banking. The FOREX market specializes in buying and selling foreign currencies. It is a network of commercial banks, central banks, brokers, and customers who communicate with each other by telex and telephone. The bulk of business is carried out in London and New York. Eurocurrency banking deals with currency used for trade within Europe but outside the country of origin (the eurodollar, the euroyen, etc). Now all the operations are carried out between the dollar and other currencies. Banks receiving eurocurrency deposits are known as eurobanks. For instance, when a U.K. bank doesn't lend sterling but lends an overseas currency to a non — national it is conducting eurocurrency business. Banks in the eurocurrency market have three types of customers: non-banks, central banks and commercial banks.

(4) International banking has developed various types of foreign business organizations. The most traditional forms include branches, representative offices, subsidiaries, joint ventures. More recently as the risk of international banking has increased new forms have been introduced. Among them are International Banking Facilities (IBFs), Export Trading Companies, shell branches. Branch offices are full service facilities that provide a complete set of services supplied by the bank's home office. Unlike branches representative offices only market services of the home branch and find potential customers. Subsidiaries are separate corporations set up in foreign markets. They are often used instead of branches because of local regulations or tax advantage. A joint venture is a useful form that reduces risk exposure in entering a new foreign market. IBFs are separate banking centres in a U.S. domestic bank or office of a foreign bank authorized to participate in Eurocurrency banking. U.S. commercial banks are permitted to own and operate export trading companies. According to Federal Reserve Board regulation, these firms must receive over half of their income from assisting exports from the U.S. A shell branch is a small office outside an international bank's home country. It books deposits and keeps track of other banking transactions.

Text-Based Activities

I Match the paragraphs of the text with the best heading from those given below. Account for your choice.

1. The main components of international banking.
2. Organizational forms of international banks.
3. Historical development.
4. The main customer services.
5. The biggest international financial organizations.

II Find the places in the text where you can insert:

1. I.M.F. is a bank from which a borrower uses its own currency to buy the foreign currency it needs. The Fund rebuilds confidence in currencies that are in temporary difficulty.

2. The international debt problem concerns the ability to repay international loans.
3. Some international banks prefer to acquire an existing firm overseas that already has an established customer-base rather than building a new office and a new clientele.

III Decide if there is any evidence for the following statements in the text. Comment upon them.

1. The concept of eurocurrencies is the same as that of eurodollars.
2. When a bank lends an overseas currency lo a non-national ii conducts eurocurrency business.
3. In their pursuit of the least expensive sources of funds banks use a wide variety of organizational structures.

Text 5.6 CURRENCY AND OTHER FORMS OF EXCHANGE

(1) The work of bank centres on money and financial services. Virtually any activity involving money or advice about financial matters is undertaken by all the commercial banks. The immediate service offered by the bank is the receipt for deposit of coins, notes and cheques and the cashing of cheques, through current accounts. Coins and notes in circulation have the status of «legal tender» that is to say they must be taken in payment of a debt although the extent to which this applies in the case of coins is deliberately restricted for the sake of convenience.

The most common means of payment, particularly for significant sums of money, is the cheque since it is both safer and more convenient than using cash. However, it is not legal tender and creditors can refuse to accept it if they wish. Normally both national cheques and traveller's cheques are readily negotiable if the bearer has some means of proving his identity and the creditor can be sure that the cheque will be «honoured». To assist the use of cheques banks now provide their customers with bankers cards which, when used in association with a cheque, will guarantee it up to a stated maximum. If a customer wishes to make payments of large amounts of money by cheque and is not known to the creditor, then he may obtain a «certified cheque» from his bank. Such a cheque is signed by the bank and therefore payment is guaranteed.

(2) Those trading overseas, or in conditions where there may be a significant time lapse between sending out goods and their receipt by the customer, may use a Bill of Exchange as a means of payment. This is really a post dated cheque which assures the creditor payment but also gives the buyer opportunity to inspect the goods before the transaction is completed. Those whose credit standing is unknown may have to get the Bill «accepted» before a creditor will take it. Such a process guarantees payment and most work of this kind is undertaken by the merchant banks. Because Bills are post dated creditors may have to wait some time for their money. They can overcome this problem by endorsing the Bill and then either discounting it with a Discount House or a bank or passing it on to another trader in settlement of a debt of their own. By the time it comes to maturity a Bill may have passed through several hands and on each occasion it must be endorsed. The commercial banks participate in this activity in two ways: in part by lending money to the discount houses and in part by discounting bills for their own customers.

Text-Based Activities

I Decide which of the following statements are correct.

1. Coins and bills of every denomination are called legal tender.
2. Cheques are rarely accepted in lieu of currency.
3. To cash a traveller's cheque the bearer need only present proper identification.
4. Bills of Exchange are not legal tender.
5. A cheque is always guaranteed by a bank.
6. Certified cheques are always guaranteed by a bank.

II Choose the right answer:

1. «We constantly handle coins and bills» means:
   a) cash them under most circumstances,
   b) deal with them,
   c) receive them.
2. «Bills of every denomination» denote:
   a) bank notes of different values,
   b) bank notes of various sizes,
   c) other means of exchange.
3. «Legal tender» is:
   a) a type of paper currency,
   b) a requirement to accept in settlement of a debt,
   c) money guaranteed by a government.
4. «Both cheques and traveller's cheques are readily accepted» means:
   a) able to be given to another party,
   b) certified by the bank that funds are available,
   c) endorsed by an officer of the bank.
5. «The cheque will be honoured» means:
   a) that it will be readily accepted by creditors,
   b) that it will be treated with respect,
   c) that the bank will be ready to cash it.
6. «A bearer» is:
   a) a person who is named as payee on the exchange document,
   b) an officer of the bank who endorses the cheque,
   c) the person offering the exchange document and demanding payment.

III List all the forms of money mentioned in the passage and match them with the following definitions:

1. A bank's unqualified guarantee to pay a specified sum to a specified individual or organization.
2. A negotiable instrument issued only by the Bank of England and signed by the Chief Cashier of the Bank.
3. A written order to a bank to pay a stated amount of money.
4. A negotiable instrument issued by a bank in exchange for cash and readily usable in most parts of the world.
5. Token money largely used for small purchases and transactions.

6. A written order to a bank to pay a stated amount of money to a stated person or, after endorsement, to the bearer on or within a stated time after a given date.

IV Answer the following questions:

1 .What forms of money are called legal tender?
2. Why are cheques a common form of exchange?
3. What is the main purpose of a banker's card?
4. What is the special feature of a certified cheque?
5. What is the main use of a Bill of Exchange?
6. Why does a Bill sometimes have to be «accepted»?
7. In which two ways might a creditor who needed the money dispose of a Bill?

Dialogue

Read the dialogue.

Student: The bank must use just about every form of exchange in a day's work.

Cashier: Just about. Of course, we constantly handle coins and bills of every denomination.

S.: They're what you call legal tender.

C.: Yes. … or currency. A nation's currency is its legal tender.

S.: But a check isn't legal tender.

C.: No. However checks are a very common form of exchange, and they are generally accepted in lieu of currency.

S.: Are traveler's checks currency?

C.: Not in a strict sense. But they're immediately negotiable everywhere. For instance, even merchants will cash them under most circumstances.

S.: The bearer need only present proper identification.

C.: That's right.

S.: Well, what's a bank note? Is that currency?

C.: Definitely. Bank notes are issued by the banks of the Federal Reserve System, and they're legal tender just as silver certificates are.

S.: That's what I thought. But getting back to checks, why are bank drafts sometimes preferred over checks?

C.: Well, in the case of a check, the party who signs it is the only one who guarantees payment. But a bank draft is issued and guaranteed by a bank.

S.: Is that true of cashier's checks, too?

C: Yes. And also of certified checks and bank money orders.

S.: What about sight drafts?

C.: Now, sight drafts are different. They’re a form of request for payment through a bank.

Answer the following questions:

1. What forms of exchange are called legal tender?
2. Why are checks a common form of exchange?
3. How are traveller's checks useful?
4. Which banks in the USA may issue bank notes?
5. What is the difference between a check and a bank draft?

6. What do cashier's checks, certified checks and bank drafts have in common?
7. How do sight drafts differ?

UNIT 6 PAYMENT METHODS

Text 6.1 PAYMENT

(1) Compared to selling in the domestic market, selling abroad can create extra problems. Delivery generally takes longer and payment for goods correspondingly can take more time. So exporters need to take extra care in ensuring that prospective customers are reliable payers and that payment is received as quickly as possible.

(2) In the first and in the last analysis, payment for exports depends on the conditions outlined in the commercial contract with a foreign buyer. As explained previously, there are internationally accepted terms designed to avoid confusion about cost and price.

(3) The way exporters choose to be paid depends on a number of factors: the usual contract terms adopted in an overseas buyer's country, what competitors may be offering, how quickly funds are needed, the life of the product, market and exchange regulations, the availability of foreign currency to the buyers, and, of course, whether the cost of any credit can be afforded by the buyer or the exporter.

(4) There are four basic methods of payment providing varying degrees of security for the exporter:

a) payment in advance;
b) open account;
c) Bills of Exchange;
d) Documentary Letter of Credit.

1. Payment in advance.

Clearly the best possible method of payment for the exporter is payment in advance. Cash with order (CWO) avoids any risks on small orders with new buyers and may even be asked for before production begins. However, this form of payment is extremely rare in exporting since it means that an overseas buyer is extending credit to an exporter when the opposite procedure is the normal method of trade. Variations in this form of payment are cash on delivery (COD) where small value goods are sent by Post Office parcel post and are released only after payment of the invoice plus COD charges.

2. Open account.

An exporter receives the greatest security of payment from cash with order or from cash on delivery. At the other extreme payment on open account offers the least security to an exporter. The goods and accompanying documents are sent directly to an overseas buyer who has agreed to pay within a certain period after the invoice date usually not more then 180 days. The buyer undertakes to remit money to the exporter by an agreed method.

(5) The open account method of payment is increasingly popular within the EEC because it is simple and straightforward. 70 per cent of UK exports are paid for under open account terms. It saves money and procedural difficulties but the risk to the ex-

porter is obviously greater. It is only successful if an exporter trusts the business integrity and ability of an overseas buyer, something that has probably been established through a sustained period of trading.

(6) A variation of open account payment is the consignment account where an exporter supplies an overseas buyer in order that stocks are built in quantities sufficient to cover continual demand. The exporter retains ownership of the goods until they are sold, or for an agreed period of time, after which the buyer remits the agreed price to the exporter.

(7) However, a large proportion of export contracts cannot be settled by payment in advance or by open account, particularly with sales outside the EEC. So parallel with the development of international trade throughout the world, the trading community has developed methods of payments which involve the transfer of documents for exported goods using the international banking system — with the aim of speedily settling export transactions at minimum risk to exporters and to overseas buyers.

Text-Based Activities

I Complete the following sentences on the basis of the information given in the text.

1. The method of payment you adopt for each customer depends on many factors, such as……
2. The use of Incoterms in commercial contracts helps……
3. The choice of the method of payment is important as each of them provides……
4. Cash with order is highly satisfactory from the exporter's point of view, but the least…...
5. It is quite safe to send small value goods by COD post as the goods are……
6. If you know your foreign customer well and have no reason to doubt his credibility, you may……..
7. Under the open account agreement, the delivery of goods is not……
8. You can speedily settle export transactions at minimum risk using……

II Answer the following questions:

1. Why does selling abroad create extra problems as compared to selling in the domestic market?
2. What helps to avoid misunderstandings in payment for exports?
3. What factors does the choice of a method of payment depend on?
4. Which method of payment provides the best/greatest security for the exporter?
5. Why is payment in advance of order not frequently used in exporting?
6. Which method of payment offers the least security to an exporter?
7. If the open account method offers so little security to an exporter, why is it becoming more and more popular?
8. When does an exporter agree to deliver goods on open account?
9. How does the consignment account operate?
10. Besides payment in advance and by open account, what other methods of payment has the trading community worked out?

III Fill in the missing words:

The method of obtaining payment of an export order is usually a matter ___ negotiation ___ the exporter and his buyer and will in many instances be governed ____ the exporter's knowledge of the buyer and the buyer's financial standing.

In deciding the terms ____ payment to negotiate, the exporter may perhaps wish the degree ___ security he obtains, the speed ____ remittance and any additional costs involved.

In rare cases an exporter is able to persuade his buyer to pay 100 percent of the ___ value before ____ take place. It is quite common, however, for the buyer to make an ___ payment of a percentage of the contract value.

Where the exporter has complete faith in the buyer he may be willing to trade on an _____ account basis. This usually means that the buyer receives the ____, takes ____ of the goods and thereafter makes ____ to the exporter in accordance with previously agreed _____.

Text 6.2 BILL OF EXCHANGE (B/E)

(1) An exporter can send a bill of exchange for the value of the invoice of goods for export through the banking system for payment by an overseas buyer on presentation. A bill of exchange is legally defined as "an unconditional order in writing, addressed by one person to another, signed by the person giving it, requiring the person to which it is addressed to pay on demand or at a fixed or determinable future time a certain sum of money, to or to the order of a specified person, or to the bearer".

In other words an exporter prepares a bill of exchange which is drawn on an overseas buyer, or even on a third party as designated in the export contract, for the sum agreed at settlement.

(2) The bill is called a sight draft if it is made out payable at sight i.e. "on demand". If it is payable "at a fixed or determinable future time" it is called a term draft, because the buyer is receiving a period of credit known as the tenor of the bill. The buyer signs an agreement to pay on the due date by writing an acceptance across the face of the bill.

(3) By using a bill of exchange with other shipping documents through the banking system, an exporter can ensure greater control of the goods, because until the bill is paid or accepted by the overseas buyer the goods cannot be released. Conversely the buyer does not have to pay or agree to pay by some agreed date until delivery of the goods from the exporter.

(4) An exporter can pass a bill of exchange to a bank in the UK. The UK bank forwards the bill to its overseas branch or to a correspondent bank in an overseas buyer's country. This bank, known as the collecting bank, presents the bill to whomever it is drawn upon, for immediate payment if it is a sight draft, or for acceptance if it is a term draft. This procedure is known as a clean bill collection because there are no shipping documents required. Clean bill collections have become more popular, particularly in some European countries where the method is also used in internal trade. Also such collections provide more security than open account terms if there is some doubt about a buyer's financial status.

(5) However, it is more likely that bills are used in a documentary collection method of payment. In this case, an exporter sends the bill to the buyer through the banking system with the shipping documents, including the document of title to the goods, i.e. an original bill of lading. The bank then releases the documents on payment or acceptance of the bill by the overseas buyer.

(6) An exporter can even use the banking system for cash against documents (CAD) collection. In this case only the shipping documents are sent and the exporter instructs the bank to release them only after payment by the overseas buyer. This method is used in some European countries whoso buyers often prefer CAD to a sight draft if the exporter insists on a documentary' collection for settlement of the export contract.

(7) In all the methods of payment using a bill of exchange, a promissory note can be used as an alternative. This is issued by a buyer who promises to pay an exporter a certain amount of money within a specified time.

(8) It is even possible to send the documents and bill of exchange directly to an overseas buyer's bank, by-passing the UK bank. This system of direct collection is widely supported by US banks, but it dispenses with the help of the UK bank whose aid can be invaluable if something goes wrong in the collection. For example, there could be excessive shipping delays so that a buyer may refuse to accept or pay a draft on presentation. In this situation the UK bank can act as the exporter's agent by arranging the warehousing of the goods or their reshipment, or even disposing of them at auction to recoup any outlay.

(9) An overseas buyer may deliberately default on a term bill or just go bankrupt. In either case the UK bank can arrange legal action or act on instructions to initiate protests i.e. engage a notary public in the buyer's country to deliver a "notice of dishonour" to the defaulter, thus preparing a likely settlement in favour of the exporter if matter has to go to court.

Text-Based Activities

I Complete the following sentences on the basis of the information given in the text.

1. The bill is called a sight draft if it is payable ....
2. The bill is called a term draft if it is payable..........
3. The tenor of the bill is ....
4. A term draft does not have to be paid at sight but at.......
5. The goods cannot be released to a foreign buyer until the bill ....
6. A clean bill collection means that ....
7. A documentary bill collection means that…………….the most important of which is………….
8. A promissory note is issued by…………….who in this way guarantees……………..
9. When there is..

II Explain the following terms and give your own examples:

account	*cash*	*date*
bill	*collection*	*default*
draft		

III Consider the following situation. Give short answers to the questions after the text:

You already know two functions of a Bill of Lading. Its third function is as a document of title. A document of title is proof of ownership, so the person who owns the B/L may claim the goods. . Under the heading 'Consignee' is the word 'ORDER'. This word means that the B/L is negotiable - it can be sold. If you sell the goods you give the buyer the B/L so it can be used to claim the goods. The advantage of this is that the importer can sell the goods while the ship is still at sea. The buyer then presents the B/L and collects the goods when the ship arrives at the port of destination. The first importer has the money to start another transaction. This was very important when voyages took many months.

Credit is normal in export trade. When a B/E has been signed by the importer, the exporter usually has to wait about 90 (or sometimes 180) days before it can be exchanged for money. Because a B/E is negotiable, the exporter may discount (sell) the bill at his bank before the 90 days have passed. The exporter has the money to start another transaction immediately and the bank collects the money when the B/E is paid. The bank may rediscount the bill to a discount house which specialises in this work.

1. *What are the two functions of a B/L that you know already?*
2. *Which words on a cheque mean that it is negotiable?*
3. *Look at the air waybill in Exercise 11.2. Is it negotiable?*
4. *Do you think an exporter discounts a B/E when the transaction is 'documents against payment'?*
5. *When a bank discounts a B/E, do you think it pays (a) more than (b) the same amount as (c) less than the face value of the bill?*

Text 6.3 DOCUMENTARY LETTER OF CREDIT

(1) By sending documents through the banking system in a documentary bills collection, both an exporter and an overseas buyer have some degree of security in completing the commercial contract. But a more secure method of carrying out the transaction is by a documentary letter of credit. This documentary letter of credit when transmitted through a bank, usually in the exporter's country, becomes the means by which the exporter obtains payment.

(2) The necessary documents, correctly completed, are presented to a bank by the expiry date of the credit. If the terms of the credit are met an exporter can receive payment from a UK bank. The buyer is in effect providing the exporter with immediate payment in return for a guaranteed assurance from a reputable bank that the export documents required to deliver the goods have been completed to the bank's satisfaction.

(3) Documentary credits may be revocable or irrevocable. A revocable letter of credit is rather rare nowadays because it means that the terms of the credit can be cancelled or amended by an overseas buyer at any time without prior notice to the exporter. Most letters of credit are irrevocable, which means that once a buyer's conditions in the letter have been agreed by an exporter, they constitute a definite undertaking by the buyer's bank and cannot be revoked without the exporter's agreement.

(4) UK banks advise letters of credit i.e. on presentation of documents required in a letter of credit, they send them for collection and payment by the issuing bank of an overseas buyer. The letter of credit in this situation is only as good as the strength of the overseas bank involved. An exporter's advising bank undertakes no responsibility itself to pay the exporter.

(5) Even better security is achieved if the irrevocable letter is confirmed by an advising bank in the UK. Then the UK confirming bank stands fully in place of the issuing bank abroad, and provided all the terms and conditions of credit are fulfilled by an exporter, payment is assured by the banking system without recourse, i.e. without further call on the exporter. So when an exporter has negotiated in the contract with the buyer for a confirmed irrevocable letter of credit then security of payment, as far as humanly possible, is achieved.

(6) But whether or not the credit is confirmed it is essential that the exporter checks the credit terms immediately to make sure they are compatible with the commercial contract made with the buyer. In dealing with documentary credits the bank is concerned only with the documents to be presented and not with the goods or services involved.

Documentary credits may provide for payment at sight or for acceptance of a term bill of exchange by either the issuing bank in a buyer's country or the correspondent bank in the UK.

Text-Based Activities

I Complete the following sentences on the basis of the information given in the text.

1. The expiry date is the date by which…
2. A revocable letter of credit means that…
3. An irrevocable letter of credit means that provided…
4. A confirmed irrevocable letter of credit is one conformed by…
5. Payment is assured without recourse means that provided ….the exporter….

II Answer the following questions:

1. Which method of payment provides the greatest security for the exporter?
2. Who provides the buyer with the assurance that the goods will be shipped in accordance with the terms of the contract?
3. Why are revocable letters of credit seldom used in foreign trade?
4. On what condition can an irrevocable letter of credit be cancelled?
5. Does an irrevocable letter of credit provide the exporter with assurance that he will be paid on shipment of goods under all circumstances?
6. To achieve better security who should a letter of credit be confirmed by?
7. What is the first duty of an exporter when he is advised about a letter of credit? Why?

III Consider the following situation. Give short answers to the questions after the text:

Bruce Stevens of Harbour Imports Pty, Melbourne, Australia, wanted to pay Peter Weaver of Clothco Ltd, Manchester, UK, for some cloth. Bruce wrote to his bank on a special form and asked them to open an irrevocable documentary credit. This is a Letter of Credit from Bruce's bank guaranteeing payment in Britain at a later date. If it is irrevocable, it cannot be cancelled. Neither Bruce nor his bank can change their minds and refuse to pay. Peter's bank knows Bruce's bank very well and they know they will receive the money, so they confirmed the Letter of Credit. This means that they guaranteed to pay the money so Peter was sure he would be paid. However a Letter of Credit is not negotiable, so Peter had to wait until the Letter of Credit was paid before he received his money.

1. Was Peter paid immediately for the cloth?
2. Who applies for a L/C, the importer or the exporter?
3. Who issues a L/C?
4. If a L/C is not irrevocable, who might not pay?
5. If a L/C is not confirmed, who might not pay?
6. Can you discount a L/C?
7. Do you think an exporter would rather be paid by B/E D/P or by L/C?
8. How many reasons can you think of why importers or banks might not pay a B/E or an unconfirmed revocable L/C?

VI Translate the following letter of credit into Russian.

THE BANK OF NEW YORK

NEW YORK'S FIRST BANK - FOUNDED 1784 BY ALEXANDER HAMILTON
OUR REF. NO. 0124 DATE MARCH 10, 20...
BENEFICIARY: FRENCH EXPORTER ET CIE. APPLICANT: JOHNSON IMPORT CO.
PARIS, FRANCE P.O. BOX 212 ATLANTA. GEORGIA

ADVISING BANK: COMMERCIAL BANK OF PARIS, PARIS, FRANCE

GENTLEMEN/LADIES:

WE HEREBY ISSUE IN YOUR FAVOR THIS NONTRANSFERABLE IRREVOCABLE DOCUMENTARY CREDIT WHICH IS AVAILABLE WITH:

COMMERCIAL BANK OF PARIS, PARIS, FRANCE, BY NEGOTIATION
DRAFTS AT SIGHT DRAWN ON THE BANK OF NEW YORK, NEW YORK
TO THE EXTENT OF: **US$100,000.00**
EXPIRY DATE : JUNE 30,20...
PARTIAL SHIPMENTS: ARE NOT PERMITTED
TRANSHIPMENTS: ARE PERMITTED

SHIPMENT FROM FRANCE TO SAVANNAH, GA. LATEST SHIPMENT DATE: JUNE 15, 2002.

COVERING:

25 CASES OF PERFUME AS PER PROFORMA INVOICE NO. 7136

DOCUMENTS REQUIRED:
1. COMMERCIAL INVOICE IN TRIPLICATE STATING THAT MERCHANDISE AND INVOICES ARE IN ACCORDANCE WITH PROFORMA INVOICE NO. 7136.

2. CUSTOMS INVOICE
3. PACKING LIST
4. CERTIFICATE OF ORIGIN
5. INSURANCE POLICY/CERTIFICATE ISSUED BY AN INSURANCE COMPANY IN NEGOTIABLE FORM COVERING MARINE AND WAR RISKS,
6. ON BOARD MARINE BILLS OF LADING MADE OUT TO THE ORDER OF THE BANK OF NEW YORK, NEW YORK, MARKED "NOTIFY JOHNSON IMPORT CO."

IF DOCUMENTS ARE PRESENTED WITH DISCREPANCIES WHICH ARE CORRECTED OR WAIVED, A DISCREPANT DOCUMENT FEE OF $40.00 WILL BE DEDUCTED FROM THE PROCEEDS OF THE DRAWING.

WE HEREBY AGREE WITH THE DRAWERS, ENDORSERS AND BONA FIDE HOLDERS OF DRAFTS DRAWN IN COMPLIANCE WITH THE TERMS OF THIS CREDIT THAT THE SAME SHALL BE DULY HONORED.

EXCEPT SO FAR AS OTHERWISE EXPRESSLY STATED, THIS CREDIT IS SUBJECT TO THE UNIFORM CUSTOMS AND PRACTICE FOR DOCUMENTARY CREDITS, 1993 REVISION, ICC PUBLICATION NO. 500

YOURS VERY TRULY,

AUTHORIZED SIGNATURE

ADVISING BANK'S NOTIFICATION

PLACE, DATE, NAME AND SIGNATURE OF ADVISING BANK

Text 6.4 PAYMENT ORDERS. BANK TRANSFERS

(1) A bank transfer is a simple transference of money from the account of the payer in his country to the bank account of the payee in his country. If telegraphed, a bank transfer is known as a telegraphic transfer, and, if mailed, as a mail transfer.

(2) The Home Bank forwards the Paying Bank a payment order so that the beneficiary can obtain the funds. The way of covering (reimbursing) this order is indicated in the payment order. If the reimbursement is credited to the Paying Bank's account with the Home Bank, the latter forwards a credit-advice to the Paying Bank. The debiting of the Home Bank's account with the Paying Bank is permitted by "authorization" sent by the Home Bank. That is all true if the Home Bank and the Paying Bank maintain accounts with each other. Should it be otherwise a bank transfer is made through a third correspondent bank.

To avoid possible exposure and misusage mail transfers are signed by authorized persons and telegraphic transfers are tested.

Text-Based Activities

I Decide which of the following statements are correct.

1. The Home Bank forwards a payment order directly to the beneficiary's address.
2. If the Paying Bank maintains accounts with the Home Bank all bank transfers are made through a third Correspondent Bank.
3. The way of covering an order is usually indicated in the payment order.
4. Mail transfers are signed by authorized persons to avoid possible misusage.

II Find equivalents to the following word combinations in the text:

Способ покрытия платежного поручения указан в …; счет банка-получателя у банка-эмитента; держать счета друг у друга; в противном случае; банковский перевод производится через (посредством); третий банк-корреспондент; во избежание возможного риска; уполномоченные лица.

III Translate the following word combinations into Russian:
bank transfer; mail transfer; telegraphic transfer; simple transference; a Paying Bank; a third Correspondent Bank; to avoid possible exposure; to avoid misusage; to maintain an account; to obtain the funds; the latter forwards a credit-advice to…

UNIT 7 BANKING CORRESPONDENCE

Text 7.1 INTRODUCTION

(1) Writing good business letters is an art that can be acquired by constant practice and concentrated effort, by bearing in mind the various techniques, and by observing the work of those who have mastered the art.

(2) A letter should make all the necessary points in a logical sequence, with each idea or piece of information linking up with the previous one in a pattern that can be followed.

Here is, for example the plan of a letter:

1. acknowledgement and restatement
2. instructions / request / some information
3. statement about enclosures
4. thanks

(3) The first paragraph or sentence of the letter is a very important one since it sets the tone of the letter and gives the reader his first impression of the sender. Very often the first paragraph or sentence briefly restates or refers to the contents of the letter that is being answered.

(4) The middle paragraphs, which form the main part of the letter, concern the points that need to be made, answers to give or questions to ask. It is in the middle paragraphs of a letter that planning is most important. To make sure that all the points are made clearly, fully and in a logical sequence.

(5) When closing the letter, the sender may encourage further correspondence, express thanks etc.

When letters are typed in block form the first word of each paragraph is typed at the left-hand margin.

Nearly every business letter is typed with single spacing and with double space between the paragraphs.

(6) When the letter extends beyond one page follow-on sheets are used. But the typist should avoid using them if fewer than two lines would appear on the sheet. If continuation sheets follow then very often the following abbreviations are used at the preceding page either in the center or in the right-hand corner:

P.T.O. – which means “please turn over”

… Continued

… /2

Text 7.2 OPENING A NEW ACCOUNT – CREDIT STATUS

(1) Any buyer who finds he is likely to make regular purchases from a particular seller will almost certainly ask for open account terms, i.e. he wishes to be supplied without payment for each order separately at time of delivery. He may want to pay monthly or quarterly (i.e. 3-monthly). In other words he wants credit from his supplier just as his own customers will probably want credit from him. Credit is the life-blood of trade. Modern commerce has been built up on it and it has in recent years penetrated to the retail buyer to such an extent that today many people spend half their income on credit buying, and large credit finance companies have sprung up to finance this kind of spending.

(2) In international trade, credit is of even greater importance than in the home trade, partly because of the timelag between the placing of the order and delivery of the goods. It is not only buyers who intend to place regular orders who will want credit terms, but also buyers who may want to place a single—but very large—order. Very often the banks will cover the credits required. In the present chapter we shall deal only with credit given by the seller himself.

(3) Let us suppose a seller has received a request for account terms. The seller needs to know immediately what kind of reputation the buyer has, the approximate size of his business, how he pays his accounts and even something about his trade activities, before the seller can calculate how much credit he can grant. This level of credit is called *credit standing* or *credit status.*

The seller can obtain information from *(a)* references given by the buyer, *(b)* his bank, *(c)* various trade associations and *(d)* enquiry agencies.

(4) In writing letters asking for information of this kind, the writer must remember that the whole matter is *confidential* and that in the cases of *(b)* and (c), the giving of information is a favour on the part of the givers. Letters should therefore be polite and appreciative and should give assurance of confidential treatment.

Text-Based Activities

I Answer the following questions:

1. What do open account terms imply?
2. How far has credit penetrated modern commerce?
3. What is the importance of credit in international trade?
4. How can the seller get the information about the buyer's credit status?
5. Why is the whole matter of asking for information of this kind considered to be confidential?

II Familiarise yourself with different types of seller's enquiries to reference and replies to them and translate them into Russian. Pay attention to the confidential style of writing and be ready to comment on each case.

A. Seller's letter to his bank manager, asking for information

The Manager
NorthEastern Bank Ltd.
Hadley St.
Newcastle ND2 7GF

Dear Sir,

I am thinking of granting credit to Messrs ... of..., of whom I have only slight knowledge gained during a few months of trading on a cash basis.

If you can find out anything about their financial and credit standing, I shall be very grateful to you. They give me only their bankers, The ... Bank Ltd. of... as a reference, and they estimate their monthly orders at about £500.

I hope that you will be able to assist me.

Yours faithfully, …

B. Favourable reply from a bank to letter № 3

Dear Sirs,

With reference to your enquiry of... concerning the firm named on the enclosed slip, we can advise you that they are old established dealers of the highest repute and standing, and are considered safe-for the credit you mention.

This information is for your own use only and is given without responsibility.

Yours faithfully, …

C. Unfavourable reply from a bank to letter № 3

Dear Sirs,

Replying to your enquiry DD/CC of... we regret to say that we cannot give information in this case. We would advise you to act with caution.

Yours faithfully, …

Text 7.3 THE COLLECTION OF OVERDUE ACCOUNTS

(1) There has probably never been a trading firm whose accounts department has not had to spend a considerable amount of time in trying to get customers to pay overdue accounts. In the home trade this is fairly common, but in foreign trade it is fortunately less frequent, as sellers usually insist on terms which secure payment, when dealing with customers they do not know. Accordingly the only risk comes from customers with open accounts, and as these are normally buyers with a proven reputation, this risk is small. However, it can and sometimes does happen that an account is not paid when due. A buyer may run into a period of bad trade and find himself temporarily short of money; he may have a complaint about the goods sent; he may refuse to accept a bill of exchange or delays and misunderstandings may be caused by customs regulations in his country. A wise customer will inform his supplier of any such situation and try to get some concession from him. If he does not, and an account becomes overdue, the seller has the task of asking for payment.

(2) As in the home trade, it is usual to make the first request for payment brief and polite. After all, the matter may be an oversight, and the simple act of sending a copy of the account with a remark such as 'Overdue— please settle' or 'Kindly remit' may be all that is necessary. Alternatively, a cable or telex may be sent. This saves time, gives a sense of urgency to the matter, and has in many cases proved effective.

(3) If, however, a firm decides to send a letter requesting payment, the style or tone of the letter will depend on the kind of customer for whom it is intended; how long overdue; whether customer has previously allowed accounts to become overdue; how valuable the business is, etc.

Text-Based Activities

I Answer the following questions:

1. What is a fairly common problem of an accounts department of a trading firm?
2. What kind of risk may come from customers in foreign trade?
3. What are the usual steps to be made in respect of customers whose accounts are overdue?

II Study carefully the following letters and translate them into Russian. Decide whom they are written by and identify the subject matter of each letter:

extension of credit
varying the terms of payment
errors and disagreements in accounts
a first reminder to a new credit account customer

A.

Dear Sirs,

With reference to your invoice No. 21026 of July 3rd, we have to point out that you have made an error in your total. We calculate the correct figure at £237.14.6, not £247.14.6 as given by you.

Our cheque for the former amount is enclosed and we should be obliged if you would amend the invoice or pass the necessary credit.

Yours faithfully, …

B.

Dear Sirs,

Today we have arranged payment of your invoice no. 162 for goods received on 24 April.

The material arrived in good condition and has now been sold. As we have now done business with you for a year on the basis of payment on invoice, we would like to ask you to grant us open account terms, with quarterly settlement. Our two other main suppliers, Messrs.... and..., have recently agreed to supply us on these terms.

Yours faithfully, …

C.

Dear Sirs,

We thank you for your letter of ... containing quarterly statement and your sight Bill for the amount of £....

As you know, we have always accepted your drafts immediately and regret very much that we are now compelled to ask you if you will draw on us at 60 d/s for this present account. The cause of our temporary difficulty is that most of our regular customers have suffered a failure of their early fruit crop and have had to postpone payment of their debts to us.

You may rely on us to meet your draft on presentation, if you will grant us this concession.

Yours faithfully, …

D.

Under our agreement, payment for individual orders sent to you is due 2 months from date of invoice.

The consignment of watch springs sent you by air freight on 15 June was invoiced to you on 16 June and payment was accordingly due on 16 August.

No doubt it is through an oversight on your part that settlement is now 3 weeks overdue and we look forward to receiving your remittance in the course of a few days.

May we ask you for prompt clearance of all invoiced accounts, as we can only supply at our agreed prices if this is done.

Учебное издание

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MONEY & BANKING FOR FUTURE ECONOMISTS

Методические рекомендации на английском языке
для студентов экономических специальностей

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