Roll No……..……

Membership No……

The Institute of Chartered Accountants of India

Forex & Treasury Management Certificate Course

Evaluation Test Booklet

Paper 2

27th October, 2013

Duration- 3 Hours **Total Marks- 100**

INSTRUCTIONS:

1. Please read the instructions carefully given in the question paper and solve it in the space provided.
2. This examination is closed book and closed notes.
3. The candidates are not allowed to carry the evaluation test booklet with them. Answers have to be written in this sheet only and have to be returned to the invigilator before leaving the examination hall.
4. Use Blue/Black pen only.
5. Do not write your Roll No. or Name or other identification other than in the space (perforated) provided on this sheet.
6. Please show Admit Card/Identity card to the invigilator for verification of your identity, when asked.
7. The candidates may use the calculator.
8. The candidates should allocate their time wisely.

_____ _____

(Participant Signature) (Invigilator Signature)

PLEASE RETURN THIS BOOKLET BEFORE LEAVING THE EXAMINATION HALL

Date : 27th October, 2013
Centre : New Delhi/ Mumbai /Chennai/Kolkata

(Do not write your Roll No. and Membership number anywhere in the answer sheet except as mentioned above)

Checked by **Verified by**

CERTIFICATION COURSE ON FOREX AND TREASURY MANAGEMENT

S. No.	Total Number of Questions	Questions to be answered	Total Marks	Marks Obtained
Multiple Choice -Section A	100	100	50	
Multiple Choice – Section B	50	50	50	
Total	150	150	100	

Section A

Number of questions: 100

Marks: 50

Multiple choices: There may be more than one correct answer, but there is at least one.

1. A derivatives contract cannot exist without an
   a. Exchange
   b. Underlying, be it equity, interest rate etc.
   c. Increase in volatility
   d. Increase in arbitrage
2. In which type of derivative contracts, there are no formal rules or mechanisms for ensuring market stability and integrity, and for safeguarding the collective interests of market participants?
   a. Over the Counter Derivatives
   b. Exchange traded derivatives
   c. Stock Futures
   d. Commodity derivatives
3. In Exchange-traded currency futures contracts, who acts as a central counterparty to all trades?
   a. Government
   b. Regulator
   c. Market maker
   d. Clearing House
4. Who takes advantage of mispricing in the market?
   a. Hedgers
   b. Arbitragers
   c. Speculators
   d. Investors
5. On 15th of this month, Mr. M Singh bought a January USD/INR futures contract which cost him Rs.53, 000. Each USD/INR futures contract is for delivery of USD1000. The RBI reference rate for final settlement was fixed as 53.10. How much profit/loss did he make?
   a. (+) Rs. 1000
   b. (+) Rs. 100
   c. (-) Rs.100
   d. (-) Rs. 1000
6. If you are bullish about the Indian Rupee, you would undertake the following position:
   a. Short USD/INR currency futures

b. Go long USD/INR currency futures
c. Buy Dollars
d. Say neutral since markets may turn volatile

7. You are expecting an inward remittance of US dollar 5000 into your account. You wish to freeze the foreign exchange rate today so that the rupee equivalent is fixed. You can achieve it by
   a. Buying five contracts of USD/INR futures
   b. Selling five contracts of USD/INR futures
   c. Selling five thousand contracts of USD/INR futures
   d. Buying five thousand contracts of USD/INR futures
8. If you are a trader and you have viewed that INR will strengthen, then you will take the following position
   a. Go long on USD/INR futures contract
   b. Go short on USD/INR futures contract
   c. Do nothing
   d. Both a & b
9. Under normal circumstances how is the Futures price compared to the Spot price
   a. **Higher**
   b. Lower
   c. Same price as spot
   d. Depends on the type of contract
10. A garment exporter has received huge export orders denominated in Australian dollars to be executed during the next six months. His exposure result is
    a. If INR weakens, he makes a loss
    b. If INR strengthens, he makes a loss
    c. If INR strengthens, he makes a profit
    d. If INR weakens, he makes a profit
11. In a Forward Rate Agreement,
    a. On the contract date, cash payments based on contract (fixed) and the settlement rate, are made by the parties to one another.
    b. On the settlement date, cash payments based on contract (fixed) and the settlement rate, are made by the party to the bank.
    c. On the settlement date, cash payments based on contract (fixed) and the settlement rate, are made by the borrower to the bank.
    d. On the settlement date, cash payments based on contract (fixed) and the settlement rate, are made by the parties to one another.
12. An interest rate cap is an interest rate option in which
    a. Payments are made when the reference rate exceeds the strike rate.
    b. Payments are made when the strike rate exceeds the reference rate.
    c. Payments are made when the reference rate equals the strike rate.
    d. Payments are made as agreed in the interest rate option contract.
13. An option limit which is a measure of the amount an option price would be expected to change for a unit change in the price of the underlying instrument is called as
    a. Delta

b. Gamma
c. Theta
d. Vega

14. The major identified problems relating to forward contracts do not include
    a. Lack of centralization of trading
    b. Illiquidity
    c. Counterparty risk
    d. Market risk

15. What is the fair price of an index future contract that expires in one month, presuming that no dividends are expected, one month interest is 1.5% and spot Nifty is at 1000
    a. 985
    b. 1015
    c. 1000
    d. 15

16. An Indian importer who wants to purchase US dollar for retiring his import bill due 3 months from now approaches the bank seeking to book a forward contract. He will be interested in entering into
    a. Forward purchase contract
    b. Any forward contract with an option to fix the exchange rate
    c. Forward sale contract
    d. Forward import contract

17. The current 3 V 6 FRA is 1 %. This means the market is implying that
    a. In 6 months, 3 month Libor will be 1 %
    b. In 3 months, 6 month Libor will be 1 %
    c. In 6 months, 6 month Libor will be 1 %
    d. In 3 months, 3 month Libor will be 1 %

18. An interest rate collar is a derivative involving
    a. The simultaneous purchase of a Cap and the sale of a Floor for different expiration so that the buyer and seller do not have any risk of interest rate fluctuation
    b. A strategy for making the derivative free of cost since the premium paid and received are set off
    c. The purchaser of the collar hedges against an upward swing in interest rates but simultaneously relinquishes the right to benefit from any significant fall in interest rates
    d. The purchaser of the collar hedges against a downward swing in interest rates but simultaneously relinquishes the right to benefit from any significant rise in interest rates

19. A customer is borrowing $10 million at 1 month LIBOR plus 200 bps, presently 7.75% (arbitrarily presuming that LIBOR is currently at 5.75%), from Citi Bank. The customer wishes to cap LIBOR so that it does not exceed 6%. In order to reduce the cost of the cap, the borrower sells a floor to Citi Bank with a strike of 4%. Which of the following statement is not true?
    a. If LIBOR rises above the cap, the customer compensates Citi Bank.

b. The customer has foregone the benefit of reduced interest rates should LIBOR ever fall below 4%.
c. The customer never pays more than 8% or less than 6%.
d. Citi Bank and the customer have created a "band" within which the customer will pay LIBOR plus the borrowing spread of 200 bps.

20. While auditing the treasury of a bank, you observed that dealing confirmations are regularly received through different channels. Which of the following will be considered as acceptable to you, as auditor?
    a. Confirmations received by the dealers directly
    b. Confirmations received where there are no deal slips
    c. Confirmations received by the back office from another bank directly
    d. Confirmations sent by the dealer through the dealing system
21. Unreconciled entries in nostro accounts are observed by auditor while auditing the treasury of a bank. You consider it as serious because it may have
    a. Significant liquidity impacts
    b. It may represent unrecognised risk exposures
    c. It may possibly be due to present collusion or fraud
    d. All the above
22. Market rates used by the bank for marking risk exposures to market or used to revalue assets or for risk analysis models are
    a. Supplied by the dealer
    b. Supplied by the back office
    c. To be obtained from an independent source
    d. Obtained from RBI.
23. The scope of internal audit of a treasury does not include the following:
    a. The controls around information flow and data integrity for collation
    b. Compulsory existence of mid-office
    c. Preparation of the disclosures and MIS reports
    d. Evaluation of the control environment surrounding the valuation and marking-to-market of treasury instruments.
24. Every Bank should frame Internal Investment Policy Guidelines. As auditor, you know that the following statement is incorrect
    a. The size of the bank's operations, composition of assets and liabilities, risk policy and risk appetite are to be considered while framing the policy
    b. The policy of all the banks should be similar irrespective of the size of the bank's operations, composition of assets and liabilities, risk policy and risk appetite
    c. The policy should have the Board's approval
    d. The policy should be within the overall RBI guidelines
25. While auditing the treasury of a bank, you should ensure that
    a. The deal slips are numbered serially
    b. The back office passes on the deal slips to the dealers soon on completing the deal
    c. For each deal, a confirmation to the counterparty is to be issued
    d. Each slip has been properly accounted
26. The following is allowed relating to deals concluded in the treasury of a bank

a. Any substitution of the counter party bank by another bank by the broker
b. Substitution of the security sold / purchased in the deal by another security
c. Should get reflected on the same day in its investment account
d. Specifically approved delegated authority for all brokerage deals

27. As an auditor of the treasury looking into the accounting of financial instruments, which of the following, you recognize as not true?
    a. Dividend payments on shares wholly recognised as liabilities are recognised as expenses
    b. Gains and losses associated with redemptions or refinancing of financial liabilities are recognised in profit or loss
    c. Redemptions or refinancing of equity instruments are recognized as changes in equity
    d. Changes in the fair value of an equity instrument are recognised in the financial statements.
28. For the purpose of financial accounting, fair value means the amount for which
    a. An asset exchanged between knowledgeable & willing parties in an arm's length transaction.
    b. An asset could be exchanged between willing parties
    c. A liability is settled between knowledgeable parties
    d. Asset or liability is exchanged between agreed counter parties
29. Financial asset and a financial liability shall be offset and the net amount presented in the balance sheet when, and only when,
    a. Several different financial instruments are used to emulate the features of a single financial instrument (a 'synthetic instrument')
    b. Financial assets and financial liabilities arise from financial instruments having the same primary risk exposure (for example, assets and liabilities within a portfolio of forward contracts or other derivative instruments) but involve different counterparties
    c. An entity currently has a legally enforceable right to set off the recognised amounts; and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously
    d. Financial or other assets are pledged as collateral for non-recourse financial liabilities.
30. Which of the following is not a correct statement from the financial instruments accounting perspective
    a. Assets for which the future economic benefit is the receipt of goods or services are financial assets
    b. Right to receive cash is a financial asset.
    c. Deferred revenue and most warranty obligations are not financial liabilities
    d. A contractual obligation to pay cash or another financial asset is a financial liablity
31. For the purpose of financial instruments accounting, which is not a correct statement
    a. An interest rate swap contract may be viewed as a variation of a forward contract
    b. Futures contracts cannot be considered as another variation of forward contracts

c. Both parties to a forward contract have an obligation to perform at the agreed time
d. Futures contracts differ primarily in that the contracts are standardised and traded on an exchange

32. Banks in India maintain accounts with different banks abroad and following is not true.
a. Such accounts are needed to take care of the transactions of customers and treasury
b. Such accounts pose reconciliation challenges
c. Such accounts can be opened only with RBI permission
d. Such accounts involve deployment of idle funds

33. While auditing the treasury of a bank, you expect the bank to maintain nostro accounts subject to following
a. Only one account can be maintained in one currency
b. It has to be in the currency of the country where that account is
c. There is a ceiling on the balance that can be maintained in such accounts
d. It has to be in a convertible currency

34. As per RBI guidelines, which of the following inference on concurrent audit is not correct
a. Concurrent auditor can judge the decision taken by the branch manager
b. Concurrent auditor is not meant to interfere the day to day working of the branch
c. Concurrent auditor has to see whether the transactions or decisions are within the policy parameters of the bank and RBI
d. Concurrent audit is to provide a second look on the operations

35. Concurrent auditor's brief does not include the following
a. Daily cash transactions with particular reference to any abnormal receipts and payments.
b. Daily checking of the opening and closing cash
c. Proper accounting of Currency Chest transactions, its prompt reporting to the RBI.
d. Expenses incurred by cash payment involving sizeable amount.

36. As per Government of India guidelines covering public sector banks, the Audit Committee of Executives and the Zonal Audit Committee of Executives should meet
a. Minimum six times in a year
b. Six times in a year
c. Twelve times in a year
d. Minimum twelve times in a year

37. As per Government of India guidelines covering public sector bank, the frequency of audit under Risk based system is uniformly fixed at [mark the incorrect statement]
a. 9-12 months for Extremely High/ High Risk Branches
b. 12-15 months for medium Risk Branches
c. 15-18 months of low Risk Branches
d. 12 months uniformly for all categories of branches

38. Banks' Internal Audit Department should interact with the Concurrent Auditors
a. At least once in a quarter
b. Once in a quarter
c. At least once in a year
d. Once in a year

39. As per Government guidelines, the performance of Concurrent Auditor should be reviewed
    a. On quarterly basis
    b. On half yearly basis
    c. On Annual basis
    d. There is no prescribed frequency
40. If you are a concurrent auditor of a public sector bank branch, you are required to give an undertaking that
    a. You do not have an account with that branch
    b. You have not availed any loan from that branch
    c. You do not have professional or commercial relationship with the borrowers of the branch
    d. You will exercise extra care if you have any relationship with any borrower of the branch
41. As per RBI guidelines, the review of significant Audit Findings of Treasury and Derivatives is to be placed before the Audit Committee of Board of Directors of the bank on
    a. Monthly basis
    b. Quarterly basis
    c. Half yearly basis
    d. Yearly basis
42. Stripping a five year Government security will result in following number of securities
    a. Five
    b. Six
    c. Ten
    d. Eleven
43. The facility of Bank Receipt is not available to banks
    a. In respect of transactions in Government Securities for which SGL facility is available
    b. When the scrips are yet to be issued by the issuer and the bank is holding the allotment advice.
    c. When the security is physically held at a different centre and the bank is in a position to physically transfer the security and give delivery thereof within a short period.
    d. When the security has been lodged for transfer / interest payment and the bank is holding necessary records of such lodgments and will be in a position to give physical delivery of the security within a short period.
44. In the investment transactions, the aggregate upper contract limit of total transactions through each approved broker (both purchase and sales) entered into by a bank during a year, as per RBI guideline, is
    a. 1%
    b. 5%
    c. 10%
    d. 25%
45. A company's total revenue is Rs 6 crores with 80% credit sales. The delay in hold up cheques is 4 days and with efficiency, this can be reduced by half. Presuming that the collections

occur evenly, year has 300 working days and cost of funds is 9% pa, the annual savings for the company is Rs

a. 14,400
b. 28,80,000
c. 28,800
d. 23,671

46. Centralisation of treasury function in a multidivision corporation
    a. Increases the effectiveness of cash management through netting
    b. Increases the total amount of cash to be maintained
    c. Allows the corporation to benefit from leading and / or lagging
    d. Both a & b above
47. Which of the following is not associated with the cash management of a firm?
    a. Stretching accounts payable without affecting the credit of the firm
    b. Speedy collection of receivables
    c. Investing surplus funds in long term securities
    d. Avoiding ide funds lying in firm's current accounts
48. In hedge accounting, functional currency is
    a. The currency in which a transaction takes place
    b. The currency of the primary economic environment in which the entity operates
    c. The Indian rupee
    d. The currency as allowed by RBI
49. In hedge accounting, a single instrument may be designated as a hedge of more than one type of risk if
    a. The risks hedged can be identified clearly
    b. The effectiveness of the hedge can be demonstrated
    c. It is possible to ensure that there is specific designation of the hedging instrument and different risk positions
    d. All the above
50. As per hedge accounting guidelines, the foreign currency risk of a highly probable forecast intragroup transaction may qualify as a hedged item in consolidated financial statements provided that the transaction is denominated in
    a. The functional currency of the entity entering into that transaction and the foreign currency risk will not affect consolidated profit or loss
    b. A currency other than the functional currency of the entity entering into that transaction and the foreign currency risk will affect consolidated profit or loss
    c. The functional currency of the entity entering into that transaction and the foreign currency risk will affect consolidated profit or loss
    d. A currency other than the functional currency of the entity entering into that transaction and the foreign currency risk will not affect consolidated profit or loss
51. If an entity has a firm commitment to make a purchase in a foreign currency of Rs 100 and a firm commitment to make a sale in the foreign currency of Rs 90, it can hedge
    a. The net amount of Rs 10 by acquiring a derivative and designating it as a hedging instrument associated with Rs 10 of the firm purchase commitment of Rs 100.

b. The net amount of Rs 10 by acquiring a derivative and designating it as a hedging instrument associated with the firm sale commitment of Rs 100.
c. An amount of Rs 100 by acquiring a derivative and designating it as a hedging instrument associated with the firm purchase commitment of Rs 100.
d. An amount of Rs 90 by acquiring a derivative and designating it as a hedging instrument associated with the firm sale commitment of Rs 90.

52. In the following cases, the hedging instrument offsets only part of the hedged risk. Mark the exception.
a. If the hedging instrument and hedged items are denominated in different currencies
b. In case of hedging of interest rate risk using a derivative, where part of the change in the fair value of the derivative is attributable to the counterparty's credit risk
c. The hedging instruments and hedged items are denominated in different currencies but they move in perfect tandem
d. Where the hedging instrument is available in a currency subject to exchange controls

53. A non-derivative financial asset or non-derivative financial liability may be designated as a hedging instrument only for hedge of
a. Foreign currency risk
b. Interest rate risk
c. Operational risk
d. Market risk

54. Which statement is incorrect relating to Banking cash transaction tax [BCTT] in India
a. It was withdrawn effective from April 2009
b. The tax rate is 0.01% on all cash withdrawal in a single day of cash exceeding specified limit
c. Its purpose is to track unaccounted money
d. It has been replaced by another tax on all banking transactions

55. In India, there is a financial transaction tax on the following type of financial transactions
a. Derivative transactions
b. Equity transactions
c. Corporate and Government bonds
d. Consumer account transactions

56. The policy objective for introducing financial transaction tax, as contemplated in G20 meetings is
a. To curb financial transactions
b. To restore stability and integrity in financial markets
c. To tax the rich nations
d. To meet the expenses relating to financial transactions

57. A tax was proposed on global foreign exchange transactions in 1972. Which statement is not true relating to it?
a. It is known as Tobin tax
b. It was to throw some sand in the wheels of the financial markets
c. It was to be a mechanism for discouraging speculation in short-term foreign exchange dealings

d. It was to raise revenue in the face of the oil crisis then faced

58. Securities Transactions Tax [STT] in India is
    - **a. Applicable in equity markets**
    - b. Imposed only on domestic investors
    - c. At a higher rate for non-delivery based sale transactions
    - d. Effectively bringing the market to standstill

59. Justification for imposing financial transactions tax globally includes
    - a. A strong message would be conveyed that private banks and financiers must share the costs of the global financial crisis
    - b. It facilitates the monitoring of international financial flows by providing a centralized database on such flows
    - c. It can curb speculative tendencies that induce excessive volatility and fragility in the financial markets
    - **d. All the above**

60. Globally adopting financial transactions tax has not been achieved because
    - a. Technical problems of levying tax on international forex transactions
    - **b. All countries not yet having reached consensus on such a tax**
    - c. Fear of evasion
    - d. The volume is too large to manage

61. As per Security Transaction Tax [STT],
    - a. Surcharge is applicable on STT
    - **b. STT is not applicable on off-market transactions**
    - c. Service tax is to be collected on STT
    - d. STT rate is uniform across security and type of transaction

62. The services provided by banks are liable to service tax except the following
    - a. Services rendered by PSU banks
    - b. Services rendered to Central Government Organisations
    - c. Services rendered to both Central and State Government Organisations
    - **d. Services rendered to Central Government in the form of collection of duties or taxed levied by it**

63. The regulator for Chit Funds is
    - a. RBI
    - **b. Respective State Government**
    - c. Ministry of Corporate Affairs Government of India
    - d. SEBI

64. The regulator for 'Nidhi Companies' is
    - a. Respective State Government
    - **b. Ministry of Corporate Affairs Government of India**
    - c. RBI
    - d. SEBI

65. When an Original Issue Discount [OID] bond is bought in the secondary market, the following does not attract potential tax liability
    - a. The interest attributable to the bond's original issue discount
    - b. The coupon interest payment made on the bond (if any)

c. Any capital gain or loss that is made on the bond during the time in which it is held

d. The purchase consideration

66. In the pricing of Original Issue Discount [OID] bond, following is not true

a. The original issue discount is the difference between issue price and face value

b. It is issued this way to entice the buyers

c. Zero coupon bond will often have the lowest original issue discount

d. The lower the interest rate, the greater the original issue discount

67. Which of the following statement alone is true in respect of Original Issue Discount [OID] bonds

a. OID is not a form of interest on a debt instrument

b. The discount is considered as additional interest income

c. OID exists if the stated price at redemption is less than the issue price

d. While amortizing OID, portion of it is not considered as taxable income annually

68. Since the interest on Original Issue Discount is not paid by the issuer as interest, Tax laws refer to it as

a. Imputed interest

b. Disputed interest

c. Presumed interest

d. Committed interest

69. A corporation issues an Original Issue Discount bond for $800 that pays $1000 upon maturity. However, because demand for the bond was less than anticipated, the investor pays only $700 to the issuer for the bond. The OID in this case is

a. USD 200

b. USD 300

c. USD 800

d. (-) USD 1000

70. An equivalent of Original Issue Discount in India is

a. NPV of an investment

b. Interest earned on cumulative interest deposit scheme of banks

c. There is no equivalent in India

d. Share issue of a company at a discount

71. Under debt restructuring scheme guidelines advised by RBI to commercial banks, following condition is not a must for considering extension of date of commencement of commercial operations

a. The project is an infrastructure project under PPP model awarded by a public authority and the loan disbursement is yet to begin

b. The revised date of commencement of commercial operations is documented by way of a supplementary agreement between the borrower and lender

c. Project viability has been reassessed and sanction from appropriate authority has been obtained at the time of supplementary agreement

d. Size of the project should not exceed Rs 500 crores

72. Under RBI guidelines for restructuring, the banks are required to make the provision on restructured standard accounts to the extent of

a. 2%

b. 5%
c. 10%
d. 100%

73. Conversion of debt to equity/preference share can be done by a company under restructuring subject to
a. A cap of 10 % of the restructured debt
b. It being a listed company
c. It being done only as a last resort
d. All the above conditions

74. In all cases of restructuring, the promoters' personal guarantee should be obtained except
a. Where the restructuring is due to external economic factors
b. Where corporate guarantee is available
c. There are no exceptions
d. For genuine reasons at the discretion of the lending bankers

75. Accounts classified under the below category are not eligible for restructuring
a. Standard assets
b. Sub-standard assets
c. Doubtful assets
d. Loss assets

76. Following condition makes the account ineligible for restructuring
a. BIFR cases without their specific approval
b. Financial viability is not established
c. Accounts of borrowers who have indulged in frauds and malfeasance
d. No reasonable certainty of repayment from the borrower

77. Benefits of restructuring are available subject to, inter-alia, promoters' sacrifice and additional funds brought by them should be
a. 15% of banks' sacrifice
b. 15% of the existing stake
c. A minimum of 15% of banks' sacrifice
d. A maximum of 15% of banks' sacrifice

78. While auditing books of a bank, you will consider advance secured only by the following as unsecured under restructuring mechanism
a. Another bank guarantee
b. State Government guarantee
c. Guarantee of the promoter
d. Guarantee of Central Government

79. Restructuring of advances cannot take place at the following stage
a. Before commencement of commercial production / operation
b. After commencement of commercial production / operation but before the asset has been classified as 'sub-standard'
c. After commencement of commercial production / operation and the asset has been classified as 'sub-standard' or 'doubtful'
d. After the account has been classified as loss asset

80. Following statement is true of the debt to equity ratio for a company

a. Debt to equity ratio is a long term solvency ratio that indicates the soundness of long-term financial policies of the company

b. A ratio of 1: 1 means that creditors and stockholders have contributed to the assets of the business

c. Creditors usually like a higher debt to equity ratio because it is an indication of greater protection to their money

d. Stockholders like to get benefit from the funds provided by the creditors therefore they would like a low debt to equity ratio

81. if a company has long-term debt of $3,000 and shareholder's equity of $12,000, then the debt/equity ratio is

a. 4.00

b. 0.25

c. 4.00%

d. 0.25%

82. A company has total debt of £2 million and total assets of £2 million. It then takes out a £4 million loan at 4% pa to buy a new production facility but generates a 6% return on assets. Which of the following position is likely to be true?

a. Its debt to equity ratio will rise to 3 but its share price will fall

b. Its debt to equity ratio will rise to 0.33 but its share price will increase

c. Its debt to equity ratio will rise to 0.33 but its share price will fall

d. Its debt to equity ratio will rise to 3 but its share price will increase

83. SEBI is the regulator for the following types of companies

a. NBFCs engaged in money changing business

b. Venture capital funds

c. Large size chit Funds

d. Gold loan companies

84. A Currency Forward contract is traded

a. In a recognised exchange, specially authorized by RBI

b. Between two clients or corporates

c. In the over-the-counter (OTC) market

d. On a 24 X 7 basis in Indian market

85. What is the potential loss situation of foreign exchange forward?

a. The buyer of foreign currency with the FX forward would face extra costs if the exchange rate on the settlement date is lower than the previously agreed forward exchange rate.

b. The buyer of the foreign currency with the FX forward would face potential profit if the exchange rate on the settlements date is higher than the previously agreed forward exchange rate.

c. The seller of foreign currency with the FX forward would face extra costs if the exchange rate on the settlement date is lower than the previously agreed forward exchange rate.

d. The seller of the foreign currency with the FX forward would face potential loss if the exchange rate on the settlements date is higher than the previously agreed forward exchange rate.

86. FX hedging enables both importers and exporters to:
   a. Make a clear calculation of future cash flows
   b. Set prices in a way which ensures business plan implementation
   c. Ensure operational stability and focus on their core activity
   d. All the above

87. A company is considered to have a natural currency hedging where
   a. Its forex receipts & payments are equal
   b. Its cash flows in each currency match
   c. Its imports and exports are in the same currency
   d. There is nothing like natural currency hedging

88. Which of the following statements is not true?
   a. Hedging does not eliminate any gain from an increase in the value of the asset hedged against
   b. Hedging is simply taking of a' position'
   c. Hedging is either acquiring a cash flow, an asset, or a contract that will rise in value and offset a fall in the value of an existing position
   d. Hedging protects the owner of the existing asset from loss

89. The following type of transaction does not lead to a currency exposure.
   a. Purchasing or selling on credit goods or services when prices are in foreign currency
   b. Borrowing or lending funds with repayment in a foreign currency or acquiring assets or incurring liabilities denominated in foreign currency
   c. Being a party to an unperformed foreign exchange forward contract
   d. Establishing an import letter of credit for USD 200,000 where the goods have just arrived

90. At the start and at the end of the year, Lintas U.K. subsidiary of US company has current assets of £1 million, fixed assets of £2 million, and current liabilities of £1 million. It has no long-term liabilities. What is the translation exposure?
   a. Nil
   b. £1 million
   c. £2 million
   d. £3 million

91. Rolls-Royce, the British jet engine manufacturer, sells engines to U.S. airlines and buys parts from U.S. companies. It has accounts receivable of $1.5 billion and accounts payable of $740 million. It also borrowed $600 million. What is Rolls-Royce's dollar transaction exposure in dollar terms?
   a. Nil
   b. $ 160 million
   c. $ 1360 million
   d. $1640 million

92. Circumstance under which economic exposure is likely to exist does not include the situation where
   a. The firm has entered into sales or purchase contracts denominated in a foreign currency

b. The firm is selling or buying abroad or it faces domestic competition from imports and the real exchange rate changes

c. The firm is operating in a foreign country whose government taxes nominal rather than real income

d. The exchange rate changes the home currency value of foreign currency-denominated assets and liabilities

93. On the philosophy of to hedge or not to hedge, which of the following statement is not valid?

a. In a perfect capital market, firms have all the need to hedge exchange risk.

b. If management knows about the firm's exposure better than shareholders, the firm, not its shareholders, should hedge.

c. Firms may be able to hedge at a lower cost.

d. If the firm faces progressive taxes, it can reduce tax obligations by hedging which stabilizes corporate earnings.

94. In India, currently the following currency pairs of future contracts are traded

a. JPY/INR with a lot size of 1000 units of the base currency

b. USD/INR with a lot size of 1000 units of the base currency

c. EURO/INR with a lot size of 1000 units of the base currency

d. GBP/INR with a lot size of 1000 units of the base currency

95. ABC Company USA sold heavy equipment to XYZ Company Italy for €10 million payable in six months. Currently, the six-month forward exchange rate is $1.10/€ and the foreign exchange advisor predicts that the spot rate is likely to be $1.05/€ in six months. What is the expected gain/loss from the forward hedging?

a. € 500,000

b. (-) $ 500,000

c. $ 500,000

d. (-) € 500,000

96. You are an exporter & USD/INR two month futures contract is currently trading at Rs. 59 per dollar. The spot rate is Rs 58 per dollar. You have an export receivable after two months and you find the current level of Rs. 59 attractive. Then

a. You will buy a two months currency futures contract at the current price of Rs. 59

b. You will sell a two months currency futures contract at the current price of Rs. 59

c. You will sell a two months currency futures contract at the current price of Rs. 58

d. You will buy a two months currency futures contract at the current price of Rs. 58

97. One month Rupee is trading at Rs.57 now and you expect it to move to Rs.56 and it actually moves to this level. You had entered into a currency futures contract of USD 1000. Which is the correct position?

a. You can enter into a long position by buying and make a gain of Rs 1000

b. You can enter into a short position by buying and make a loss of Rs 1000

c. You can enter into a short position by selling and make a gain of Rs 1000

d. You can enter into a long position by selling and make a loss of Rs 1000

98. Daily EOD MTM is a mandatory feature of Currency futures Settlement Process. Under that, every day, the settlement of open Currency futures position takes place at

a. The settlement price declared by the exchanges for that day.

b. The closing price for that type of contract for that day
c. The average settlement price for that currency pair that day
d. The RBI reference rate for that day

99. Following document is not required for opening a forex trade account with a bank in India as per current statutory guidelines
a. Risk Disclosure document
b. Investor Rights and Obligations document
c. Policies and procedures document
d. Non-disclosure document

100. What is the underlying for the USD INR option, as per SEBI guidelines/
a. USD INR forward rate for the matching period
b. RBI reference rate for USD
c. USD INR sport rate
d. USD transaction rate

101. Following is incorrect in respect of USD INR option in Indian markets.
a. The premium is quoted in rupee terms
b. The outstanding position is in USD terms
c. The contract size is USD 1000
d. The trading hours are 10 am to 2 pm

102. In measuring interest rate risk, as mentioned by RBI, generally
a. Earning Perspective is measured using Traditional Gap Analysis and Economic Value Perspective is measured using the more sophisticated Duration Gap Analysis
b. Economic Value Perspective is measured using Traditional Gap Analysis and Earning Perspective is measured using the more sophisticated Duration Gap Analysis
c. Both Earning Perspective and Economic Value Perspective are measured using Duration Gap Analysis
d. Earning Perspective and Economic Value Perspective can be measured using any Gap Analysis

103. As per RBI guidelines, banks are required to calculate the interest rate risk position in each currency separately where the ratio of either Rate Sensitive Assets/Rate Sensitive Liabilities to either global assets/global liabilities is
a. 1% or more
b. 2% or more
c. 5% or more
d. 10% or more

104. The difference between Rate Sensitive Assets and Rate Sensitive Liabilities for each time bucket is known as the Gap and
a. The Bank is in a position to benefit from declining interest rates by having a positive Gap
b. The Bank is in a position to benefit from declining interest rates by having a negative Gap
c. The Bank is in a position to benefit from rising interest rates by having a negative Gap

d. The Gap does not necessarily indicate the profit or loss due to movement in interest rate

105. For managing the Assets & Liabilities, each bank should set prudential limits on individual Gaps with the approval of the Board/Management Committee. The prudential limits should have a bearing on the
   a. Total assets
   b. Earning assets
   c. Equity
   d. Any or all of the above

106. Before taking up foreign exchange exposure on account of contracts, banks should be satisfied about the genuineness of the underlying exposure
   a. If the transaction is a capital account
   b. Through verification of documentary evidence,
   c. By obtaining declaration from the customer
   d. After analyzing the past dealings of the customer

107. While booking a foreign currency forward contract to a customer,
   a. The maturity of the contract should not be beyond that of the underlying transaction
   b. The maturity of the contract should be same as that of the underlying transaction
   c. The currency of the forward contract should be same as that of the underlying transaction
   d. The amount of the transaction should be exactly equal to that of the underlying transaction.

108. Balances in the EEFC account are
   a. Not eligible for booking forward contract for future conversion into INR
   b. Eligible for booking forward contract for future conversion into INR unconditionally
   c. Eligible for booking forward contracts which can be renewed on maturity
   d. In the form of current account and hence question of future conversion does not arise

109. Cross currency options [not involving INR] can be
   a. Freely booked and/ or cancelled subject to verification of the underlying
   b. Booked by any Indian citizen or entity
   c. Offered by banks in plain vanilla American option format
   d. Booked only to hedge the contingent foreign exchange exposure arising out of submission of a tender bid in foreign exchange

110. While hedging borrowings in foreign currency by Indian resident entities by other than booking forward contract,
   a. It can be hedged both for interest rate and foreign currency risks using select derivative instruments
   b. It can be hedged only against foreign currency risk using select derivative instruments
   c. It cannot be hedged as per current exchange control regulations
   d. It can involve the rupee in one of the legs.

111. Following is not a condition to be satisfied before booking a forward contract for a customer by a bank to cover a probable exposure based on past performance

a. Only foreign exchange forward contract can be used for covering this risk

b. Importers & exporters in goods & services only can avail this facility

c. Customer is required to submit supporting documentary evidence before maturity of the contract booked

d. For an exporter customer to be eligible for this facility, the aggregate of overdue bills shall not exceed 10 per cent of the turnover.

112. Any resident individual can go to a bank having an account relationship and seek to book forward contract

a. To hedge the foreign exchange exposures arising out of actual or anticipated inward remittances, without production of underlying documents, up to a limit of USD 100,000, based on self declaration

b. To hedge the foreign exchange exposures arising out of actual but not anticipated remittance, either inward and outward, without production of underlying documents, up to a limit of USD 100,000, based on self declaration

c. To hedge the foreign exchange exposures arising out of actual or anticipated remittances, both inward and outward, without production of underlying documents, up to a limit of USD 100,000, based on self declaration

d. To hedge the foreign exchange exposures arising out of actual or anticipated remittances, both inward and outward, without production of underlying documents, up to a limit of USD 10,000, based on self declaration

113. As per RBI guidelines, the 'term sheet' should necessarily and clearly mention the following for all derivative transactions

a. The purpose for the transaction detailing how the product and each of its components help the client in hedging

b. The spot rate prevailing at the time of executing the transaction

c. The quantified maximum loss/ worst downside in various scenarios

d. Including in case of forward contracts.

114. Only the following can purchase or sell currency futures contracts to hedge an exposure to foreign exchange rate risk

a. Persons resident in India

b. Only companies incorporated in India

c. Citizens of India

d. Anyone having a foreign exchange risk exposure

115. Exchange traded Currency option contracts are permitted

a. In USD-INR, EUR-INR, GBP-INR and JPY-INR

b. In USD INR only

c. Subject to the maturity of the contracts not exceeding the settlement cycle

d. In both European and American style

116. An NRI having an FCNR account with a bank in India can

a. Book a forward contract with the bank for converting the FC into INR at any future date

b. Not book a forward contract with the bank for converting the FC into any other permitted currency at any future date
c. Book a forward contract with the bank for repatriating the balance in the currency of the deposit at any future date
d. Not book forward contract covering the FCNR balance

117. A nonresident who has currency risk arising out of genuine trade transactions involving exports from and imports to India, invoiced in Indian Rupees
a. Can hedge such risk using Forward foreign exchange contracts with rupee as one of the currencies
b. Can hedge such risk using foreign currency-INR options
c. Cannot hedge such risk in the Indian foreign exchange market
d. Can hedge such risk either directly with a bank in India or through a bank overseas

118. Hedging the price risk of permitted commodities in the international commodity exchanges/ markets is permitted
a. By Companies in India, engaged in import and export trade
b. This facility must not be used in conjunction with any other derivative product
c. And such hedging of price risk on actual Import/Export of commodities and no approval of RBI is required
d. Only subject to RBI permission

119. Foreign exchange gap limits observed by dealers in the treasury of banks include
a. Individual Gap Limit which refers to the limit in each currency
b. Individual Gap Limit which refers to the limit for each trader
c. Aggregate Gap Limit which refers to aggregate of all individual gap limits
d. Individual Gap Limit which in absolute terms apply for each currency to the net position in each forward month

120. Among the various limits fixed by the management on the treasury operations, the following limit has a correlation with interest rate risk
a. Overnight limit
b. Intra-day limit
c. Counterparty limit
d. Gap limit

121. Value at Risk is
a. Used to quantify the market risk
b. Used to quantify the interest rate risk
c. Used to quantify the foreign exchange risk in forex markets
d. An indicator of the estimated loss or profit

122. Which of the following statement is not true?
a. Market risk includes foreign exchange risk
b. Credit risk includes country risk
c. Inadequate internal control results in operational risk
d. Risk arising out of change in interest rate is an operational risk

123. While developing an internal forex risk management policy, it could state that the company need not hedge its position in a currency when
a. The risk of loss is minimal

b. The cost of covering the position is disproportionately prohibitive
c. The means for covering the position are unavailable in the market
d. The management feels that there is opportunity for gaining

124. While developing an internal Risk Framework for Forex Transactions as part of forex risk management policy, a corporate should establish risk thresholds for each type of exposure by stipulating
a. The level above which a foreign currency exposure requires protective action
b. The risk tolerance limits which should be independent of the size of the business
c. The degree of fluctuation in corporate earnings resulting from adverse exchange rate movements
d. The amount of cash that the company is willing to expend to reduce and protect exposures

125. Among the different strategies available to a corporate for managing foreign currency risk, following is not true
a. Adopting a fully hedged strategy is costly and offers no flexibility
b. Adopting a fully hedged strategy relieves management of the need to take an active decision-making posture
c. A selective hedging policy relies on economic decision-making as the basis for judging the company's exposure to risk
d. Taking no action in hedging is the best choice for most companies

126. For a corporate spread over several geographies, the foreign exchange risk framework should
a. Stipulate complete centralization of hedging decision taking
b. Take into account the reporting structure before deciding on centralization of hedging decision taking
c. Necessarily stipulate hedging decision taking at each geography separately
d. Have a separate policy for each currency in each geography

127. Under Basel III norms, as advised by RBI, scheduled commercial banks should maintain capital as under
a. A minimum total capital of 9% of total risk weighted assets
b. A capital conservation buffer of 2.5% of risk weighted assets in the form of Common Equity Tier 1 capital
c. A minimum total capital of 9% of total risk weighted assets
d. Both a & b above

128. The Basel III capital regulations are being fully implemented in India with effect from
a. 1.4.2013
b. 31.3.2018
c. 1.4.2015
d. 1.4.2016

129. As per RBI guidelines, for the purpose of reconciling the accounts, bank statements are to be obtained from nostro correspondents should be obtained
a. Atleast weekly
b. Atleast fortnightly
c. Atleast once a month

d. As frequently as possible & there are no RBI guidelines thereon

130. Special audit of the Dealing Room and the system in operation should be conducted

a. At least once in a year

b. At least once in a quarter

c. At least once in half year

d. As regularly as laid down by the management policy

131. Between banks, independent foreign exchange deal confirmations of contracts are obtained for deals

a. In case of computer generated deal slips, they need not be signed subject to prior exchange of relative stamped agreements

b. In regard to Cash/Tom/Spot contracts, confirmations may not be followed-up, if the amounts thereof have already been received.

c. They are to be signed by dealers

d. Discrepancies noticed are rectified on the same day

132. In the event of late delivery of foreign currency amount of an interbank deal at the stated overseas centre, interest for the delay shall be payable by the seller-bank at

a. FEDAI prescribed rate

b. RBI prescribed rate

c. At rates mutually agreed

d. At LIBOR applicable to that currency

133. As per International Organization of Securities Commissions principles, the term Financial Market Infrastructure

a. Includes to systemically important payment systems

b. Facilitate the clearing, settlement, and recording of monetary and other financial transactions

c. Does not refer to the infrastructure made available to financial market participants from where they operate

d. Can be sources of financial shocks if not properly managed.

134. As per International Organization of Securities Commissions principles,

a. A payment system is a set of instruments, procedures, and rules for the transfer of funds between or among participants

b. A payment system is generally categorised as either a retail payment system or a large-value payment system

c. The system includes the participants and the entity operating the arrangement

d. Payment systems are typically not based on agreements but imposed by regulators.

135. As per International Organization of Securities Commissions principles, the conceptual stages of payment processing will be in the following order

a. Submission, Validation, Conditionality, Settlement

b. Submission, Conditionality, Validation, Settlement

c. Submission, Settlement, Validation, Conditionality

d. Settlement, Submission, Conditionality, Validation

136. Delivery versus delivery is a securities settlement mechanism

a. Where delivery of one security occurs against delivery of the other security

b. That links payment for security in such a way that delivery of one security occurs simultaneously against the payment therefor

c. That links two securities transfers in such a way as to ensure that delivery of one security occurs if and only if the corresponding delivery of the other security occurs

d. Is a mechanism for delivery of securities in capital market

137. As per Regulatory Requirements SEBI (ICDR) Regulations, 2009, in pubic and rights issues, In the event of non-receipt of minimum subscription, all application moneys received shall be refunded to the applicants not later than:

a. Fifteen days of the closure of the issue, in case of a non-underwritten issue; and seventy days of the closure of the issue, in the case of an underwritten issue where minimum subscription including devolvement obligations paid by the underwriters is not received within sixty days of the closure of the issue

b. Thirty days of the closure of the issue, in case of a non-underwritten issue; and seventy five days of the closure of the issue, in the case of an underwritten issue where minimum subscription including devolvement obligations paid by the underwriters is not received within sixty days of the closure of the issue

c. Fifteen days of the closure of the issue, in case of a non-underwritten issue; and seventy five days of the closure of the issue, in the case of an underwritten issue where minimum subscription including devolvement obligations paid by the underwriters is not received within sixty days of the closure of the issue

d. Thirty days of the closure of the issue, in case of a non-underwritten issue; and seventy days of the closure of the issue, in the case of an underwritten issue where minimum subscription including devolvement obligations paid by the underwriters is not received within sixty days of the closure of the issue

138. An issuer of public issue may determine the price of specified securities

a. In consultation with the lead merchant banker

b. Through book building process

c. After obtaining permission from Controller of Capital Issues

d. The coupon rate and conversion price of convertible debt instruments in consultation with the lead merchant banker or through the book building process

139. Following is incorrect while comparing Foreign Exchange Management Act 1999 and its predecessor FERA 1973

a. FERA presumes mens rea whereas FEMA does not

b. FERA is 'criminal' in consequences whereas FEMA is 'civil'

c. FERA does not have a sunset clause whereas FEMA has

d. FEMA does not have a sunset clause whereas FERA has.

140. As per FEMA, State Bank of India London is treated as

a. Nonresident entity

b. Resident entity

c. Foreign entity

d. Indian entity

141. As per PMLA 2002, offence of money laundering includes

a. Directly or indirectly attempting to indulge in any process or activity connected with the proceeds of crime and projecting it as untainted property
b. Knowingly assisting in any process or activity connected with the proceeds of crime and projecting it as untainted property
c. Knowingly is a party or is actually involved in any process or activity connected with the proceeds of crime and projecting it as untainted property
d. All the above

142. As per PMLA 2002, every bank has to maintain a record of all prescribed transactions. Which of the following is not correct relating to such documents?
a. Whether such transactions comprise of a single transaction
b. Bank is bound to submit the same to the authorities only if there is court order
c. A series of transactions integrally connected to each other if such series of transactions take place within a month
d. Which are to be preserved for a period of ten years from the date of closure of the transaction between the customer and the bank

143. A foreign venture capital investor
a. Can invest its total funds committed in one venture capital
b. Cannot invest more than 25% of the funds committed for investments to India in one Venture Capital Undertaking
c. Should invest at least 75% of the investible funds shall be invested in unlisted equity shares or equity linked instruments 4[of Venture Capital Undertaking
d. Should invest at least 50% of the investible funds shall be invested in unlisted equity shares or equity linked instruments 4[of Venture Capital Undertaking

144. Foreign Venture Capital Investor has to route the transactions
a. Through any bank account that is maintained in India
b. Through an account opened with the special permission of RBI
c. Through a branch of a bank designated for opening of special non-resident rupee account
d. Through a special escrow account opened with a PSU bank in India

145. Foreign Venture Capital Investor cannot make investments in domestic companies which are engaged in the business of
a. Non-banking financial services
b. Gold financing
c. Activities not permitted under the Industrial Policy of Government of India
d. All the above

146. For the purpose of commencement of mutual funds business, the contribution of the sponsor should be
a. at least 40% of the net worth of the asset management company
b. at least 50% of the net worth of the asset management company
c. at least 40% of the capital of the asset management company
d. at least 40% of the capital of the asset management company

147. The ceiling on the amount of business that can be routed through any broker by an asset management company is

a. 10% or more of the aggregate purchases and sale of securities made in all its schemes

b. 5% or more of the aggregate purchases and sale of securities made in all its schemes

c. 5% or more of the aggregate purchases and sale of securities made in that scheme

d. 10% or more of the aggregate purchases and sale of securities made in that scheme

148. Banking Regulation Act 1949 prohibits banks from lending

a. On the security of its own shares

b. On the security of real estate

c. Without any security

d. On the security of shares beyond limit advised by RBI

149. If a bank charges interest which is abnormally high, it can be scrutinized

a. By courts

b. By RBI

c. By Government

d. By none

150. As per The Chit Funds Act, 1982, chit means a transaction

a. In which subscribers get money as and when they want during the period when they have subscribed

b. In which subscribers pool money to help each other during the period when they have subscribed

c. In which subscribers earn high interest during the period when they have subscribed

d. In which persons subscribe periodically during definite period and each by lot or auction is eligible for a prize amount