



Roll No.....

Membership No.....

**The Institute of Chartered Accountants of India  
Forex & Treasury Management Certificate Course  
Evaluation Test Booklet**

**Paper 2  
13<sup>th</sup> April, 2014**

**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. The candidates are not allowed to carry the evaluation test booklet with them. This should be tied up with sheets provided to answer the question Paper.
3. Use Blue/Black pen only.
4. Do not write your Roll No. or Name or other identification other than in the space (perforated) provided on this sheet.
5. Please show Identity Card to the invigilator for verification of your identity, when asked.
6. The candidates may use the simple calculator.
7. The candidates should allocate their time wisely. Use the number of marks assigned to each problem as your guide.
8. In order to get full credit on the problems, the candidates must show all their rough work/ other workings.

\_\_\_\_\_  
(Participant Signature)

\_\_\_\_\_  
(Invigilator Signature)

**PLEASE RETURN THIS BOOKLET BEFORE LEAVING THE EXAMINATION HALL**

**Date : 13<sup>th</sup> April, 2014**

**Centre : New Delhi/ Mumbai /Chennai/Kolkata/Bangalore/Ahmedabad**

(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**

<b>S. No.</b>	<b>Total Number of Questions</b>	<b>Questions to be answered</b>	<b>Total Marks</b>	<b>Marks Obtained</b>
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. Please [ ✓ ] mark for the answer.

1. The statement “Mary bought 1 lot (100 shares) of Infosys July Future @2000” means
  - a. Mary will buy 100 Infosys shares at Rs 2000 in July
  - b. Mary will buy 100 Infosys shares in July in Futures market at Rs 2000 per share
  - c. Mary has agreed to buy 100 Infosys shares at Rs 2000 per share on 31.7.2014**
  - d. Mary has a right to buy 100 Infosys shares in July at Rs 2000 per share.
2. An investor has bought ABC Future @ 500. On the settlement date, the spot price of ABC is Rs 600. During the AGM held that day, ABC decided to split its each share into two. In this case, the Strike Price is
  - a. Rs 500**
  - b. Rs 600
  - c. Rs 300
  - d. Rs 1200
3. In an equity derivative market, the lot size means
  - a. Number of underlying contracts in one security
  - b. Number of underlying securities in one contract**
  - c. The minimum contract size
  - d. The contract size
4. The collection of margins at client level in the derivative markets is essential as derivatives are
  - a. Leveraged products and non-collection of margins would provide zero cost leverage**
  - b. Risky products and non-collection of margins at the client level would provide undue benefit
  - c. Risky products and may not get reflected in the balance sheet of the client
  - d. A category of products for which margin is to be collected as per regulator
5. Which of the following statements is correct?
  - a. A Call option is said to be in-the-money when the current price stands at a level higher than the strike price**
  - b. A Call option is said to be in-the-money when the current price stands at a level lower than the strike price
  - c. A put option is said to be in-the-money when the current price stands at a level higher than the strike price
  - d. A Call option is said to be in-the-money when the current price stands at a equal to the strike price
6. Current Nifty is 3880. You buy one option contract (lot size 50) of Nifty near month call for Rs.20 each. The strike price is 3900. What is your break even Nifty level?
  - a. 3880
  - b. Rs 3880
  - c. 3920**

- d. 3900
- 7. Current Nifty is 3880. You buy one option contract (lot size 50) of Nifty near month calls for Rs.20 each. The strike price is 3900. At expiration, Nifty is 3974. Profit per Nifty is
  - a. **Rs 54**
  - b. Rs 74
  - c. Rs 94
  - d. No profit
- 8. A Forward Rate Agreement is
  - a. A synonym of forward contract
  - b. A forward contract where the underlying asset is a share
  - c. An agreement to sell currency at an agreed rate at a future date
  - d. **An agreement to lend money at a future date**
- 9. A forward contract can be considered as similar to a futures contract in the following aspect
  - a. Standardized amount
  - b. Traded on exchange
  - c. Exchange is the counterparty
  - d. **Used for hedging risk**
- 10. An option contract is said to be a 'put option,' if
  - a. **The writer gives the buyer of the option, the right to sell the underlying asset.**
  - b. The buyer gives the writer of the option, the right to sell the underlying asset.
  - c. The writer gives the buyer of the option, the right to buy the underlying asset.
  - d. The buyer gives the writer of the option, the right to buy the underlying asset.
- 11. The rate of change of the option's delta is called
  - a. Alpha
  - b. Beta
  - c. **Gamma**
  - d. Theta
- 12. Options are also called 'wasting assets' because
  - a. Investors waste lot of money in buying options
  - b. Option contracts are generally available on assets which are not good investments
  - c. **The time value component of option tends to zero near the expiration date**
  - d. The intrinsic value of the option tends to zero near the expiration date
- 13. A swaption is an option
  - a. To buy a swap that will become operative at the expiry of the option
  - b. **To buy or sell a swap that will become operative at the expiry of the option**
  - c. To sell a swap that will become operative at the expiry of the option
  - d. To buy or sell a swap that will become operative on its buying or selling
- 14. In option pricing models,
  - a. **Black-Scholes Model assumes that share prices and index values follow a Log-Normal Distribution**
  - b. Black-Scholes Model assumes that share prices and index values follow a Binomial Distribution
  - c. Binomial Model assumes that share prices and index values follow a Log-Normal Distribution

- d. Both Black-Scholes & Binomial Models assume that share prices and index values follow a Log-Normal Distribution
15. The Option Premium paid is
- a. The maximum profit a Buyer can ever make and represents the maximum loss the Seller can ever make.
  - b. The maximum loss a Buyer can ever make and represents the maximum profit the Seller can ever make.**
  - c. The minimum loss a Buyer can ever make and represents the maximum profit the Seller can ever make.
  - d. The minimum loss a Buyer can ever make and represents the maximum loss the Seller can ever make.
16. The intrinsic value component of the premium of an option is
- a. The difference between the share price and the option price
  - b. Always constant
  - c. The difference between price of the underlying and the strike price of the option**
  - d. The same as the option premium at any point of time
17. Current Price of one share of X Ltd is Rs. 272. If Rs. 260 strike call is quoted at Rs. 45, what is the Time Value?
- a. Rs. 12
  - b. Rs. 33**
  - c. Rs. 45
  - d. Rs. 67
18. An European Option
- a. can be exercised anytime during the life of the Option
  - b. is traded only on the European Exchange
  - c. is a floating rate option
  - d. can be exercised only at maturity**
19. Financial or Trading transactions arranged to benefit from temporary price difference in different markets is known as
- a. Intra day trading
  - b. Option trading
  - c. Arbitrage**
  - d. Future Swap
20. In an option contract, the premium is generally paid
- a. Upfront by the seller
  - b. Upfront by the buyer**
  - c. At the end of the contract by the buyer
  - d. At the end of the contract by the seller
21. The following derivative product is nonlinear in its pricing formula
- a. Forward contract
  - b. Futures contract
  - c. Option contract**
  - d. All derivative products
22. A futures contract gets squared up

- a. From the same party from or to whom it was bought or sold
  - b. By allowing it to lapse on expiry
  - c. The exchange will automatically square on the date of expiry, if still open**
  - d. By booking a forward contract
23. If you sell a put option on a share with a strike price of Rs. 245, market price of Rs. 260 and a premium of Rs. 18, how much is the maximum gain that you may have on expiry of this position?
- a. Rs. 263
  - b. Rs. 18**
  - c. Rs. 242
  - d. Rs. 15
24. In a derivative market, an equity collar has the following feature
- a. It is simultaneous purchase of a put option and the writing of a call option
  - b. Both put and call options are out-of-the-money
  - c. Both put and call options have the same expiration date
  - d. All the above**
25. An Interest Rate Futures contract is
- a. An agreement to buy or sell a debt instrument in future at a price that is fixed today
  - b. An agreement to lend at a fixed rate in future
  - c. An agreement to buy or sell a debt instrument at a specified future date at a price that is fixed today**
  - d. An agreement to sell a debt instrument at a specified future date at a price that is fixed today
26. A currency future does not have the following feature
- a. One currency has to be Indian rupee**
  - b. Date in the future is specified
  - c. Exchange rate is fixed on the purchase date
  - d. There have to be two currencies for the contract
27. While booking forward contracts under 'contracted exposure' category, if customers are unable to produce underlying documents due to logistic reasons, maximum period available for producing such documents to the bank, as per RBI guidelines, is
- a. 7 days
  - b. 15 days**
  - c. 30 days
  - d. Three months
28. How many times in a financial year, a customer can fail to meet the requirement of submitting underlying documents within the prescribed period, beyond which as per RBI rules, bank can book forward contract only against underlying documents
- a. 1
  - b. 2
  - c. 3**
  - d. 5
29. A customer has exported with invoice in US dollar. He wishes to book a forward contract for Euro against Indian rupee for this contract.

- a. It is not allowed
  - b. It is allowed subject to obtaining RBI permission
  - c. It is allowed if Company's Board approved risk management policy permits**
  - d. It is unconditionally allowed
30. A resident customer can buy a cross currency option from the bank
- a. If what is offered by the bank is a plain vanilla European option**
  - b. If the customer agrees not to cancel it
  - c. Without any conditions on the type of option
  - d. If the option is an American option
31. For selling a cross currency option to a customer by a bank, the following is not a condition
- a. It should be on fully back-to-back basis
  - b. One time permission of RBI is to be obtained
  - c. Every time, RBI permission is to be obtained**
  - d. It should be an AD Category I bank.
32. As per RBI guidelines, Foreign Currency – Indian Rupee swap
- a. Cannot be offered by banks in India to resident customers presently
  - b. Can be offered by banks only after satisfying the financial soundness of the customer**
  - c. Can be offered by banks in India whether the customer has any need to change currency or not
  - d. Cannot be offered unless the customer has RBI permission
33. Where forward contracts are booked for an exporter based on past performance without underlying documents, the customer should submit a declaration as per RBI format
- a. On quarterly basis, duly certified by Statutory Auditor**
  - b. On monthly basis, duly certified by Statutory Auditor
  - c. On monthly basis, duly certified by a CA
  - d. On quarterly basis, duly certified by CA
34. Exchange traded currency futures is not available in the following currency pair
- a. USD – INR
  - b. Euro – INR
  - c. Pound Sterling – INR
  - d. Swiss Franc – INR**
35. In India, exchange traded currency futures
- a. Are quoted in respective currency
  - b. Are settled in respective currency
  - c. Are quoted and settled in Indian rupees**
  - d. Should have a maturity not exceeding the underlying
36. As per RBI guidelines, exchange traded option can be on the following underlying currency pair
- a. USD – INR spot rate**
  - b. USD – INR
  - c. USD – INR, Euro – INR spot rate
  - d. Any currency pair exchange rate
37. In finance, the calendar spread refers to a family of spreads involving
- a. Options of different underlying stock, same strike prices, but different expiration months

- b. Options of the same underlying stock, same strike prices, but different expiration months**
  - c. Options of the same underlying stock, same strike prices and same expiration month
  - d. Options of the same underlying stock, different strike prices and different expiration months
- 38. Subject to other RBI guidelines, an Indian company engaged in import of commodity is permitted to hedge the price risk
  - a. For any commodity it is importing
  - b. Only in Indian exchanges
  - c. In conjunction with any other derivative product also
  - d. In international commodity exchanges or markets**
- 39. For the interbank foreign exchange dealings, banks should have
  - a. The net overnight open exchange position and the aggregate gap limits should be approved by the bank's Board and informed to RBI**
  - b. The net overnight open exchange position and the aggregate gap limits should be approved by RBI
  - c. The net overnight open exchange position and the aggregate gap limits should be approved by both the bank's Board and RBI
  - d. The net overnight open exchange position and the aggregate gap limits should be approved by the bank's chief dealer
- 40. Banks investments abroad are
  - a. Strictly prohibited
  - b. Freely permitted
  - c. Are subject to RBI permission
  - d. Subject to limits approved by Banks' boards**
- 41. Banks in India can borrow from banks abroad subject to:
  - a. Should not exceed 50 per cent of their unimpaired Tier I capital or USD 10 million (or its equivalent), whichever is higher**
  - b. Should not exceed USD 10 million (or its equivalent)
  - c. Should not exceed 50 per cent of their unimpaired Tier I capital
  - d. Only subject to RBI permission
- 42. A resident individual's eligibility for booking forward contract without production of supporting documents is subject to the following
  - a. The outstanding contract should not exceed USD 10000
  - b. The outstanding contract should not exceed USD 100000**
  - c. The tenor of the contract should not exceed one month
  - d. Resident individual should necessarily have supporting documents to book forward contract
- 43. The overall net open position, as per RBI guidelines, is
  - a. The sum of all net short positions or sum of all net long positions whichever is higher**
  - b. The sum of all net short positions or sum of all net long positions whichever is lower
  - c. The aggregate of all net short positions & all net long positions
  - d. The difference between sum of all net short positions and sum of all net long positions

44. Private exchange houses abroad are permitted to open rupee accounts with banks in India. They are
- Treated as Vostro accounts
  - Used for private inward remittances only without exception
  - Opened by banks freely
  - Mainly from Middle East countries**
45. If a corporate wishes to undertake hedging transactions in the international commodity exchanges/ markets, one of the conditions/ guidelines stipulated by RBI is as under:
- There is no condition stipulated by RBI since this is not regulated by RBI
  - Transactions should not be done through brokers
  - The corporate can purchase or sale of options and futures as hedging instruments
  - Reconciliation of brokers' statements should be completed within three months**
46. Reconciliation of nostro account of a bank is the responsibility of
- The nostro account holding bank**
  - The bank which maintains the nostro account
  - Both the bank owning and holding the nostro account
  - The customer
47. RBI guidelines covering reconciliation of nostro accounts have the following advice
- The nostro account statement is to be received as and when a transaction takes place
  - Reconciliation is to be done once in a week
  - The nostro account statement is to be received atleast once in a week**
  - The nostro account is to be got audited annually through the statutory auditor
48. The base documents used for reconciling nostro accounts as per RBI guidelines are
- Mirror account statement
  - Foreign bank account statement
  - Both the above statements together
  - The statements at a & b above together as on the same date**
49. As per RBI guidelines, Banks should furnish a 'Statement of the Reconciliation of Bank's Investments, as at the end of
- Every accounting year duly certified by the bank's auditors**
  - Every financial year duly certified by the bank's auditors
  - Every accounting year duly certified by a Chartered Accountant
  - Every year duly certified by a Chartered Accountant
50. The accounting principles to be followed while accounting coupon /discount in repo / reverse repo transactions as per RBI master circular includes
- The repo buyer shall continue to accrue the coupon/discount on the securities sold under repo even during the repo period while the repo seller shall not accrue the same
  - The repo seller shall continue to accrue the coupon/discount on the securities sold under repo even during the repo period while the repo buyer shall not accrue the same**
  - Both the repo buyer and seller shall continue to accrue the coupon/discount on the securities sold under repo even during the repo period
  - Both the repo buyer and seller shall not accrue the coupon/discount on the securities sold under repo during the repo period

51. As per RBI guidelines on accounting of repo transactions, which of the following is a correct statement:
- The securities are sold in the first leg at market related prices and re-purchased in the second leg at the same prices. The consideration amount in the second leg would, however, include the repo interest. Only sale should be reflected in the Repo Account
  - The securities are sold in the first leg at market related prices and re-purchased in the second leg at the same prices. The consideration amount in the first leg would, however, include the repo interest. The sale and repurchase should be reflected in the Repo Account
  - The securities are sold in the first leg at market related prices and re-purchased in the second leg at the same prices. The consideration amount in the second leg would, however, include the repo interest. The sale and repurchase should be reflected in the Repo Account**
  - The securities are bought in the first leg at market related prices and sold in the second leg at the same prices. The consideration amount in the second leg would, however, include the repo interest. The sale and repurchase should be reflected in the Repo Account
52. As per RBI guidelines on accounting of repo transactions, which of the following is a correct statement
- Repo buyer continues to accrue coupon/discount as the case may be, even during the repo period while the repo seller shall not accrue the same
  - Repo seller & buyer continue to accrue coupon/discount as the case may be, even during the repo period
  - Neither repo seller nor repo buyer continues to accrue coupon/discount as the case may be during the repo period
  - Repo seller continues to accrue coupon/discount as the case may be, even during the repo period while the repo buyer shall not accrue the same**
53. A repo @ 5% was held with a security of 6.35% 2020 which has coupon payment dates of 2<sup>nd</sup> Jan and 2<sup>nd</sup> July. With 30/360 day count convention, what is the broken period interest for accounting purpose for the first leg?
- 1.5169**
  - 1.4962
  - 1.1944
  - 1.5346
54. A repo @ 5% was held with a security of 6.35% 2020 which has coupon payment dates of 2<sup>nd</sup> Jan and 2<sup>nd</sup> July. With 30/360 day count convention, what is the cash consideration for the first leg for accounting purpose, if the market price of security was Rs 90.9100?
- Rs 89.3931
  - Rs 92.4269**
  - Rs 100
  - Rs 101.5169
55. If the cash consideration in a repo transaction is Rs 95.1111 which of the following is a correct accounting transaction in the first leg for the seller of repo?
-

	Debit	Credit
Cash	95.1111	
Repo A/c		95.1111
Securities Receivable under Repo A/c (by contra)	95.1111	
Securities Sold under Repo A/c (by contra)		95.1111

b.

	Debit	Credit
Cash	95.1111	
Repo A/c	95.1111	
Securities Receivable under Repo A/c (by contra)		95.1111
Securities Sold under Repo A/c (by contra)		95.1111

c.

	Debit	Credit
Cash		95.1111
Repo A/c		95.1111
Securities Receivable under Repo A/c (by contra)	95.1111	
Securities Sold under Repo A/c (by contra)	95.1111	

d.

	Debit	Credit
Cash	95.1111	
Repo A/c	100	
Securities Receivable under Repo A/c (by contra)		95.1111
Securities Sold under Repo A/c (by contra)		100

56. A 5 days repo @ 5% was done with GOI 91 day Treasury Bill maturing on 07 May 2020 with a price of Rs 99.0496. if the repo interest is 0.0678, what is the day count used?
- Actual/365 days**
  - 30/360 days
  - Actual/360 days
  - 30/365 days
57. Generally cash management system service offered by banks results in
- Efficient management of cash of the corporate
  - Reduces the risk
  - Increases the profit
  - All the above**
58. Cash Management Services as a product offered by banks
- Is a standardized product across all banks

- b. Is governed by specific RBI regulations
  - c. Is a customized product**
  - d. Will have increased relevance with electronic banking
59. Following is one of the services offered by banks under Cash Management Services
- a. Lock box**
  - b. Safe deposit locker
  - c. Safe custody service
  - d. PMS
60. The absence of a foreign exchange management policy for a corporate
- a. Is a violation of statutory guideline
  - b. Leaves the company unprepared for adverse currency movement**
  - c. Means it is a small company
  - d. Indicates that everything is not alright with that company
61. The objective of establishing foreign exchange policy by a corporate is
- a. To minimize the adverse effect of currency movement
  - b. To have a fair system for evaluating the treasury staff
  - c. To have integrated policy making
  - d. All the above**
62. Balance sheet exposure that results from the consolidation of financial statements of foreign entities into home currency is called
- a. Transaction exposure
  - b. Translation exposure**
  - c. Economic exposure
  - d. Operating exposure
63. Of all the accounting exposures, the most all-encompassing definition of exposure is
- a. Corporate earning exposure
  - b. Translation exposure
  - c. Economic exposure**
  - d. Operating exposure
64. As defined in the foreign exchange policy of a corporate, managing foreign exchange exposure will involve
- a. Choosing appropriate hedging instrument
  - b. Choosing the timing of the execution
  - c. Adjusting the policy to suit the currency volatility
  - d. a & b above**
65. In relation with hedge accounting, the term “forecast transaction” means
- a. An uncommitted but anticipated future transaction**
  - b. A committed future transaction
  - c. A transaction that will take place in future
  - d. A transaction about which forecast has come true
66. In the context of hedge accounting, “functional currency” refers to
- a. Currency used by the entity for its transactions
  - b. A convertible currency
  - c. Currency of the primary economic environment in which the entity operates**

- d. A currency which functions as medium of exchange
67. The following cannot be a hedged item
- a. Recognized asset
  - b. Recognized liability
  - c. Unrecognized firm commitment
  - d. Held to maturity investment for interest rate risk**
68. As per AS 11, foreign exchange rate gain or loss on intra group monetary item transacted between two group entities
- a. Is not fully eliminated on consolidation if they have different functional currencies**
  - b. Is fully eliminated on consolidation if they have different functional currencies
  - c. Is not fully eliminated on consolidation if they have same functional currencies
  - d. Gets offset during consolidation
69. For hedge accounting purpose, hedging relationships are of different types but following is not included
- a. Fair value hedge
  - b. Cash flow hedge
  - c. Hedge of investments in foreign operations as defined in AS 11
  - d. Standard hedge**
70. Where the hedging instrument expires, sold or terminated, the hedging accounting prescribed should be
- a. Discontinued retrospectively
  - b. Discontinued with prospective effect**
  - c. Can be continued as though it has not ended
  - d. The entity can evolve its own guidelines on this
71. In a cash flow hedge, the accounting is to done using the following guideline viz.:
- a. The portion of the gain or loss on the hedging instrument that is determined to be an ineffective hedge should be recognized in the statement of profit and loss**
  - b. The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge should be recognized in the statement of profit and loss
  - c. The portion of the gain or loss on the hedging instrument that is determined to be an ineffective hedge should be recognized in an appropriate equity account
  - d. The portion of the gain or loss on the hedging instrument that is determined to be an ineffective hedge should not be recognized at all
72. Use of swap to change floating rate debit to fixed rate debit is an example of
- a. Fair value hedge
  - b. Cash flow hedge**
  - c. Hedge of firm commitment
  - d. Effective hedge
73. Hedging a cash market position in a futures or option contract for a different but price related commodity is called
- a. Cross hedge**
  - b. Natural hedge
  - c. Synthetic hedge
  - d. Multipurpose hedge

74. An ECS debit refers to
- Multiple repetitive credits combined with a multiple debits to the accounts of corporate customers called users
  - Single debit to account of a user combined with multiple credits to the accounts of corporate customers called users
  - Multiple repetitive debits combined with multiple debits to the accounts of customers
  - Multiple repetitive debits combined with a single credit to the account of a single corporate customer called user**
75. Herstatt risk arose
- When the first leg of transaction could not be completed
  - When the second leg of transaction could not be completed**
  - Not because of time zone factors
  - As a pre-settlement risk
76. Indian Financial Network is
- A communication backbone for the Indian banking system**
  - A closed user group among financial entities in India
  - A forum for exchanging financial news and developments
  - A leading provider of finance related software
77. Negotiated dealing system is
- A system where price negotiation is possible
  - A platform for dealing in forex products
  - An electronic platform for dealing in G-Sec**
  - A software exclusively for securities trading
78. Primary dealers are
- Merchant bankers for the Government of India**
  - Agents who deal in primary market
  - Brokers in government securities market
  - The first point of contact for an investment in a market
79. In securities market, technical analysis refers to
- Predicting the future based on economic fundamentals
  - Efforts to forecast based on past data**
  - Analysis of data for decision taking
  - System based analysis of the stock market data
80. Internal audit of a treasury function in a bank does not include the following
- To verify existence of satisfactory controls in the processing of deals
  - To ascertain that the bank receives favorable rates for all its deals.
  - To confirm that the bank makes profit in each trading transaction**
  - To ensure that proper documentation procedures and filing systems are in place
81. Internal auditor has to uphold the four golden principles of integrity, objectivity, confidentiality and
- Competence**
  - Accuracy
  - Compliance
  - Truthfulness

82. The bank dealers have to furnish an undertaking to conform to the code of conduct prescribed by
- RBI
  - ICAI
  - FEDAI**
  - Concerned bank
83. The auditor should check that the bank dealers' software system enables
- The serial number is allotted by the dealer as soon as the deal is completed
  - The deal slips not to carry any serial number but the deal details
  - No changing of date and time, except in day end situations
  - The trading date, time and the transaction serial number are entered automatically in the system**
84. The internal audit of a treasury should check
- The deal slips are prepared and passed on to back office immediately after conclusion of the deals**
  - The deal slips are immediately prepared and passed on to back office at the end of every day
  - The deal slips are immediately prepared and passed on to dealing room immediately after conclusion of the deals
  - The deal slips are immediately prepared and passed on to dealing room at the end of the day
85. A dealer in a bank treasury can
- Sign contract notes
  - Pass accounting entries
  - Send payment instructions
  - Do none of the above**
86. SGL transfer forms
- Carry a serial number**
  - Have to be necessarily signed by one authorized official
  - Are always issued on stamp paper
  - When received, to be deposited with banks
87. Under Basel norms, Basic Indicator Approach is
- A market risk measurement technique
  - A credit risk measurement technique
  - An operational risk measurement technique**
  - A tool indicating the basic risk areas of the bank
88. Basis risk means
- The most basic risk any bank faces
  - The risk of interest rate change
  - The risk of interest rates of assets & liabilities change at different rates**
  - The risk that the basis on which floating interest rates are quoted on the assets or liabilities may change adversely
89. Net interest margin in banking parlance is
- Difference between interest earned and interest paid

- b. **The net interest income divided by average interest earning assets**
  - c. Interest income divided by interest earned
  - d. Not a standard formula across banks
90. Which of the following is the correct formula for net NPA, as per RBI
- a. Gross NPA - Total provisions held
  - b. **Gross NPA – Balance in Interest Suspense account - DICGC/ECGC claims received and held pending adjustment - Part payment received and kept in suspense account - Total provisions held**
  - c. Gross NPA + Balance in Interest Suspense account + DICGC/ECGC claims received and held pending adjustment - Part payment received and kept in suspense account - Total provisions held
  - d. Gross NPA + Balance in Interest Suspense account + DICGC/ECGC claims received and held pending adjustment+ Part payment received and kept in suspense account - Total provisions held
91. Off balance sheet exposure of a bank
- a. Generates fees without any risk
  - b. Can become an actual liability but not an asset
  - c. **Refers to business activity not involving assets or liabilities**
  - d. Non-financial transactions
92. The process of securitization
- a. **Helps the banks in improving capital asset ratios**
  - b. Involves trading in securities
  - c. Increases the assets portfolio of the bank
  - d. Is not in vogue in India
93. The options available for computing capital for credit risk in Basel 3 norms do not include
- a. Standardised Approach
  - b. Foundation Internal Rating Based Approach
  - c. **Advanced Measurement Approach**
  - d. Advanced Internal Rating Based Approach
94. Banks have the freedom to migrate to any of the advanced approaches for the risks but as per RBI guidelines on Basel 3 norms, this is subject to
- a. Obtaining RBI prior approval
  - b. Not necessarily adopting advanced approaches for all the risks simultaneously
  - c. Banks themselves choosing a date for such adoption
  - d. **All the above are true**
95. As per Basel 3 norms as advised by RBI, bank is required to comply with the capital adequacy ratio requirement
- a. At the consolidated (“Group”) level
  - b. Not at the standalone (“Solo”) level
  - c. **Both at consolidated and standalone levels**
  - d. Overseas operations of the bank through its branches are not covered in these
96. For calculating risk weightage relating to lending to individuals for acquiring residential properties, the LTV ratio is calculated as under

- a. **As a percentage with total outstanding in the account (viz. "principal + accrued interest + other charges pertaining to the loan" without any netting) in the numerator and the realisable value of the residential property mortgaged to the bank in the denominator**
  - b. Total outstanding in the account (viz. "principal + accrued interest + other charges pertaining to the loan" without any netting) in the numerator and the realisable value of the residential property mortgaged to the bank in the denominator
  - c. Total outstanding in the account (viz. "principal + accrued interest + other charges pertaining to the loan" without any netting) in the numerator and the value of the residential property mortgaged to the bank in the denominator
  - d. As a percentage with total principal + accrued interest outstanding in the numerator and the realizable value of the residential property mortgaged to the bank in the denominator
97. As per Basel 3 norms, operational risk includes
- a. Strategic risk
  - b. Reputational risk
  - c. **Legal risk**
  - d. Counter party failure risk
98. Under the Basic Indicator Approach, banks must hold capital for the risk equal to
- a. **The average over the previous three years of a fixed percentage of positive annual gross income**
  - b. A fixed percentage of positive annual gross income
  - c. A fixed percentage of positive annual gross income of the previous year
  - d. What the board of the bank has decided
99. Internal Capital Adequacy Assessment Process (ICAAP)
- a. Is an important component of Market Discipline which is pillar 3 of Basel 3
  - b. Has a single approach for it being conducted
  - c. **Is an important component of Supervisory Review Process which is pillar 2 of Basel 3**
  - d. The risks encountered under this assessment are quantifiable
100. Internal Capital Adequacy Assessment Process (ICAAP) document as per RBI guidelines on Basel 3 norms
- a. **Is a comprehensive paper on assessment of the bank's risks & how the bank intends to mitigate those risks**
  - b. Is for apprising the RBI on the bank's risk policy
  - c. Needs prior approval of RBI before adoption
  - d. Is to be audited only by external auditors

## Section B

Number of questions: 50

Marks: 50

Multiple choices: There may be more than one correct answer, but there is at least one. Please [ ✓ ] mark for the answer.

1. The working hours for handling foreign exchange business by bank branches are decided by
  - a. **The respective banks**
  - b. FEDAI
  - c. RBI
  - d. The day to day market requirement
2. As per FEDAI rules, banks shall purchase export bills
  - a. At their bill buying rate loading the interest for transit period therein
  - b. At their currency selling rate since the exporter sells the foreign currency to the bank
  - c. At RBI prescribed rate
  - d. **At their bill buying rate**
3. Crystallization of an export bill
  - a. Arises in case of export bills whether purchased or sent on collection
  - b. **Is done at TT selling rate on the date of crystallization**
  - c. Is done at bill buying rate on the date of crystallization
  - d. Does not always involve application of an exchange rate
4. The concept of normal transit period
  - a. Arises in case of import bills
  - b. **Is important for an exporter because it links the concessional interest duration**
  - c. Is linked to the time taken for the underlying commodity to reach the destination
  - d. Does not arise in case of export of services
5. As per FEDAI rules, where a bank has received a letter of credit from a correspondent bank in favour of a non-customer, it should be
  - a. Hand delivered to the beneficiary
  - b. How it should be delivered is left to the discretion of the bank
  - c. **Not sent by VPP**
  - d. Returned to the issuing bank since as per RBI rules, it cannot be handled for a non-customer
6. When an importer makes payment for retiring a bill after it is already crystallised
  - a. **There is no application of exchange rate**
  - b. The bank will apply TT selling rate
  - c. The bank will apply bill selling rate
  - d. The bank will apply overdue bill rate
7. When a bank in India encashes a foreign currency travelers cheque on behalf of an NRI who is on a visit to India,
  - a. **It results in inward foreign exchange remittance**

- b. It has no effect on the foreign exchange reserve of the country
  - c. It amounts to an outward remittance
  - d. It applies TT buying rate
- 8. When a bank books a forward contract with a customer, as per FEDAI rules, if the fixed date of delivery is a holiday, then the delivery shall be exercised on the
  - a. Succeeding working day
  - b. Preceding working day**
  - c. Same day in view of electronic payment methods
  - d. Day when the overseas settlement centre is working
- 9. Purely from the length of the contract, which arrangement of contracts below is in increasing order of the duration
  - a. Spot, cash, tom
  - b. Cash, tom, spot**
  - c. Spot, tom, cash
  - d. Cash, spot, tom
- 10. In case of forward contract booked by banks with customers, as per FEDAI rules, there can be option period for delivery, which
  - a. Is specified at the discretion of the bank
  - b. Cannot exceed one month
  - c. Is specified at the discretion of the customer**
  - d. Is possible only in case of export related contracts
- 11. As per FEDAI rules, all customer related forex transactions are to be effected in terms of
  - a. Whole rupee
  - b. Nearest whole rupee**
  - c. Lowest or highest whole rupee, whichever is beneficial to the customer
  - d. Lowest or highest whole rupee, whichever is beneficial to the bank
- 12. A forward contract booked by a customer with a bank, as per FEDAI rules,
  - a. Cannot be 'extended' at all
  - b. Can be extended at the request of the customer by cancelling the existing and rebooking**
  - c. Can be allowed to lapse if the customer is unable to fulfil obligations thereunder
  - d. Can be for a maximum duration of six months
- 13. If the customer does not come forward, forward contracts which have matured
  - a. Shall be automatically cancelled on the 30<sup>th</sup> day after maturity date
  - b. Shall be reported to RBI for further action
  - c. Shall be automatically cancelled on the 15<sup>th</sup> day after maturity date**
  - d. Will be reverted to the customer
- 14. When banks are dealing with each other directly in the interbank foreign exchange market,
  - a. There is no prescribed minimum lot**
  - b. FEDAI rules prescribe a minimum lot size
  - c. RBI has advised a minimum and maximum lot size
  - d. The deals cannot take place in every centre
- 15. In case of a foreign exchange dealing with rupee as one leg between two banks in India,
  - a. The buyer bank has to pay Indian rupee**

- b. The buyer bank has to pay foreign currency
  - c. The seller bank has to receive foreign currency
  - d. Who receives what depends on the details of the deal
16. Clearing Corporation of India Ltd [CCIL]
- a. Runs a multilateral netting system for forex inter-bank transactions
  - b. Is the central counterparty to every accepted trade
  - c. Guarantees for settlement the matched and accepted Forward deals
  - d. Undertakes all the above**
17. CCIL follows a process of netting by novation in which
- a. CCIL enters into deals with each bank afresh
  - b. CCIL treats each bank deal as a fresh contract
  - c. Bilateral relation between members is replaced by bilateral contract with CCIL & bank**
  - d. Contractual terms are altered suitably
18. The following is not a condition for a forex membership with CCIL
- a. Being an authorized dealer in foreign exchange
  - b. Has a current account with RBI
  - c. Has an INFINET connectivity
  - d. Has a prescribed minimum forex turnover**
19. Following interbank forex trade is not presently settled through CCIL
- a. Forward transactions in Euro/INR**
  - b. Spot transactions
  - c. Tom transactions
  - d. Cash transactions in any currency pair
20. An inside/outside swap offered by CCIL
- a. Involves both legs of the swap settled through CCIL system
  - b. Helps in covering a position in breach of exposure limit with CCIL**
  - c. Bank's forex position gets changed due to this
  - d. Is similar to a repo in money market
21. As per FEDAI rules, in an interbank deal, in case
- a. The buyer bank delivers the foreign currency funds to the Nostro account other than the notified account of the seller bank, it shall compensate the seller bank
  - b. The seller bank delivers the foreign currency funds to the Nostro account other than the notified account of the seller bank, it shall compensate the buyer bank
  - c. The seller bank delivers the foreign currency funds to the Nostro account other than the notified account of the buyer bank, it shall compensate the buyer bank**
  - d. The buyer bank delivers the foreign currency funds to the Nostro account other than the notified account of the buyer bank, it shall compensate the seller bank
22. A customer walks into a bank branch, looks at the card rates and unhappily says that the rate is high. He is likely to be
- a. An importer**
  - b. An exporter
  - c. An unhappy customer
  - d. Either an importer or exporter depending on situation
23. Foreign Exchange Management Act [FEMA] has a sunset clause which meant

- a. FEMA will expire after the defined period
  - b. After certain period, offences under FEMA cannot be punished
  - c. After prescribed period, offences under its predecessor act cannot be punished**
  - d. Raids by Enforcement Directorate under FEMA cannot be done after sun sets
24. FEMA defines
- a. Who is a resident India directly
  - b. Who is a nonresident Indian directly
  - c. Convertibility of currency
  - d. a & c above**
25. If a corporate has both imports from and exports to the same counter party abroad,
- a. Under FEMA, the corporate can offset the receipts and payments
  - b. Under FEMA, the corporate cannot offset the receipts and payments**
  - c. Under FEMA, it is illegal
  - d. Under FEMA, such transactions require RBI permission
26. 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
27. 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
28. 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
29. In financial markets, Financial Market Infrastructure [FMI] refers to
- a. The infrastructure available for conducting financial transactions
  - b. Regulator and the participants together
  - c. Multilateral system used for clearing, settling and recording transactions**
  - d. INFINET, the networking backbone
30. The corporate debt restructure [CDR] scheme advised by RBI is in conformity with the following approach which is the bedrock in many countries
- a. London approach**
  - b. Washington approach
  - c. Basel approach
  - d. Bretton Woods agreement
31. The CDR mechanism in India is applicable where

- a. There is only one lending bank
  - b. Where the amount outstanding is Rs five crores or more
  - c. Where the amount outstanding is Rs ten crores or more**
  - d. The accounts are not BIFR cases
32. The CDR Mechanism in India stands on the strength of a three-tier structure which does not include
- a. CDR Standing Forum
  - b. CDR Empowered Group
  - c. CDR Cell
  - d. CDR Board**
33. The CDR mechanism advised by RBI is
- a. Voluntary**
  - b. Binding on all banks
  - c. Statutory institutional infrastructure
  - d. Available only to banks
34. Alternative Investment Funds [AIFs]
- a. Invest in real estate
  - b. Are governed by SEBI (Alternative Investment Fund) Regulations, 2012**
  - c. Are governed by SEBI (Fund) Regulations, 2010
  - d. Are not governed by any statutory guidelines as they are unregulated
35. Following is not considered as an AIF under the regulations
- a. Venture capital fund
  - b. Hedge fund
  - c. Private equity fund
  - d. Mutual fund**
36. AIF cannot be organized in the following legal structure
- a. Limited company
  - b. Partnership**
  - c. Limited liability partnership
  - d. Trust
37. As per The Prevention Of Money-Laundering Act, 2002, money laundering offence includes activity connected with the proceeds of crime and projecting it as untainted property if
- a. Attempts to indulge directly
  - b. Knowingly or unknowingly assists such activity
  - c. Knowingly or unknowingly is a party to such activity
  - d. None of the above**
38. Under The Prevention Of Money-Laundering Act, 2002, banks are required to maintain records connected with transactions covered by this act for a period of
- a. Ten years from the date of cessation of the transactions**
  - b. One year from the date of cessation of the transactions
  - c. Five years from the date of the transaction
  - d. One year from the date of commencement of the transactions
39. Under The Prevention Of Money-Laundering Act, 2002, when a person is accused of having committed the offence of money laundering, the burden of proving that

- a. **Proceeds of crime are untainted property shall be on the accused**
  - b. Proceeds of crime are tainted shall be on the Director appointed under this act
  - c. Proceeds of crime are tainted shall be on the Government
  - d. The accused is guilty, will be only in court
40. As per Securities And Exchange Board Of India (Foreign Venture Capital Investors) Regulations, 2000, foreign venture capital investor includes
- a. An investor incorporated and established in India
  - b. **Foreign investor registered under these regulations**
  - c. Entities not registered under these Regulations
  - d. Entities not proposing to make any investment in India
41. As per Securities And Exchange Board Of India (Foreign Venture Capital Investors) Regulations, 2000, foreign venture capital investor
- a. Can maintain normal rupee account with any bank
  - b. Has to open a special nonresident rupee account
  - c. Has to open a special nonresident foreign currency account
  - d. **b or c above**
42. As per Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2009,
- a. Anchor investor means a qualified institutional buyer an application for a value of one crore rupees or more in a public issue made through the book building process in accordance with these regulations
  - b. Anchor investor means a qualified institutional buyer an application for a value of five crore rupees or more in a public issue made through the book building process in accordance with these regulations
  - c. **Anchor investor means a qualified institutional buyer an application for a value of ten crore rupees or more in a public issue made through the book building process in accordance with these regulations**
  - d. Anchor investor means a qualified institutional buyer an application for a value of hundred crore rupees or more in a public issue made through the book building process in accordance with these regulations
43. Book building means a process undertaken
- a. **To assess the price for determination of value of specified securities**
  - b. Build relationship with investors
  - c. To improve the order position by a corporate
  - d. To fix the IPO terms
44. Convertible debt instrument
- a. Acknowledges indebtedness
  - b. Is convertible into equity shares at a later date
  - c. Provides no option to the holder
  - d. **All the above are true**
45. A bank can work as Self Certified Syndicate Bank for a public issue if it
- a. Is a banker to an issue
  - b. It is registered with SEBI for this purpose
  - c. It offers the facility of Application Supported by Blocked Amount

- d. It is a banker to the issue registered and offers ASBA**
46. In case of an optionally convertible debt instrument, the consent for such conversion
- a. Has to be given by the company
  - b. Has to be positively consented by the holder**
  - c. Can be inferred by nonreceipt of reply to any notice sent to the holder
  - d. Is presumed to have been given at the issue stage itself
47. An issuer may decide the price of a security in public issue through
- a. Only book building process
  - b. The advice of merchant bank
  - c. a or b above**
  - d. Board decision
48. The promoters' contribution in the public issue shall not be
- a. Less than 20%**
  - b. Less than 10%
  - c. Less than 50%
  - d. Zero
49. 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**
50. In the context of applicability of service tax to chit fund business, following is not true:
- a. Chit fund business is in the nature of cash management service
  - b. Business Chit Funds offer service for consideration
  - c. Business Chit Funds are liable to pay service tax
  - d. 'Simple Chit Funds' are also liable to pay service tax**
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