



Roll No.....

Membership No.....

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

**Paper 2  
25<sup>th</sup> May, 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 : 25<sup>th</sup> May, 2014**

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

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

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**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. Crystallization of an export bill means
  - a. **Converting the outstanding into a rupee liability**
  - b. Recovery of the overdue export bill
  - c. Fixing the due date for the export bill
  - d. There is nothing called crystallization of an export bill
2. In international banking while dealing with settlement & payment of funds relating to interbank transactions, CLS stands for
  - a. Clearing linkage system
  - b. **Continuous linked settlement**
  - c. Continuous linked system
  - d. Clearing linkage & settlement
3. What does SEPA stand for in international funds transfers?
  - a. Single economic payment authority
  - b. **Single euro payments area**
  - c. Single European payments authority
  - d. System of euro payments and accounting
4. ISDA stands for
  - a. Indian stock and derivatives authority
  - b. International stocks and derivatives Association
  - c. Indian share dealers association
  - d. **International Swaps and Derivative Association**
5. The following INCO term when used indicates that insurance premium is included in the price.
  - a. **CIF**
  - b. C & F
  - c. FOB
  - d. CFR
6. While auditing the books of a foreign exchange handling Cat B branch of a bank, you will check that In case of early realisation of an export bill as per FEDAI rules, bank has done the following:
  - a. Recover swap cost, if any
  - b. Pay swap gain
  - c. Refund the interest collected pro rata
  - d. **Recover or pay swap cost or gain if any and also refund pro rata interest collected.**
7. Your company is a leading software exporter of the country. As a deliberate policy of diversification, you have decided to establish a luxury hotel in Indonesia and wish to avail the overseas investment route and remit equity under that scheme.
  - a. You cannot make that investment since it is not in the same line of business

- b. It can be remitted subject to other RBI guidelines**
  - c. It needs RBI permission
  - d. It needs clearance from FIPB of the Ministry
- 8. While auditing the books of a mutual fund, you observe that the MF has invested huge amounts in equity of overseas companies listed on NASDAQ for equivalent of almost Rs 25,000 crores which appeared to be abnormally high. When asked, the client informed that such investments are allowed under FEMA upto a maximum of
  - a. USD 5 billion
  - b. USD 6 billion
  - c. USD 7 billion**
  - d. USD 8 billion
- 9. The three month Eurodollar interest rate was quoted in London as  $3 \frac{11}{16}$  –  $3 \frac{9}{16}$ . Therefore three months LIBOR is
  - a.  $3 \frac{11}{16}$**
  - b.  $3 \frac{9}{16}$
  - c.  $3 \frac{5}{8}$
  - d. 4
- 10. Which is not a feature of GDR
  - a. Usually listed in Luxembourg stock Exchange
  - b. Holder has voting rights**
  - c. Marketed by the underwriters
  - d. The proceeds are in foreign currency
- 11. The right but not an obligation, to sell a fixed amount (Of currency or bonds) at a specified price & time is called
  - a. Future option
  - b. Call option
  - c. Put option**
  - d. Interest Rate Options
- 12. You are the chief dealer of the bank. As of now, the bank has net purchases of USD 5 million and net sales of 3 million. The nostro balance is USD 1 million. What is the net position of the bank at this point of time in USD?
  - a. USD 1 million
  - b. Overbought USD 1 million
  - c. Overbought USD 2 million**
  - d. Overbought USD 3 million
- 13. An entry relating to an export bill purchase on a Friday in US dollar was wrongly accounted as sales in position books by the bank's treasury. The rate for the transaction was Rs 60.20. However during the New York time on Friday, US dollar strengthened substantially due to favourable data release. Monday was a holiday in India. While there was no significant movement of USD on Monday in international market, on Tuesday morning, INR strengthened substantially though not to the extent of the Friday's USD strengthening. This was due to large capital inflows. While auditing the dealer's position of the bank on Tuesday, you observed the wrong reporting. If the bank reverses the entry immediately, what is the impact on profitability
  - a. Profit will increase**

- b. Profit will decrease
  - c. Profit will remain unaffected since no valuation is done
  - d. We cannot arrive at any conclusion due to insufficient info
14. Your company wishes to import machinery from Japan for USD 10 million and the supplier is ready to offer discount if you pay on sight basis over the invoice price which offers 3 years bullet payment. Interest rate in Japanese yen is presently around 1% pa compared to 14% pa on a term loan to be availed to pay on sight basis. As a treasurer, you know that
- a. It is advisable to pay on sight basis and avail the discount
  - b. The benefit of discount is offset by the appreciation of Japanese yen
  - c. This information is insufficient to decide**
  - d. For arriving at any conclusion, you need to know forward premium of Japanese yen for 3 years against INR.
15. Your company has export receivable of USD 5 million due on 31.8.2014. Your company also has import payment of similar amount due on 30.9.2014. In view of this, your company
- a. Naturally does not have any exchange risk of USD against INR
  - b. Suffers the exchange difference between 31.8.2014 and 30.9.2014
  - c. Can keep the export receivable in EEFC account for one month and pay the import bill which will be a no loss situation
  - d. Swap the payable and receivable through its bank by booking contracts**
16. You are the auditor of treasury of a bank. The bank has various limits for the treasury approved by the board. The overnight limit fixed is USD 25 million. You expect the intra-day limit to be
- a. Less than USD 25 million
  - b. More than USD 25 million**
  - c. Exactly USD 25 million
  - d. Decided by the dealers on day to day basis
17. Long ago, banks were advised by RBI to maintain square or near square position in foreign currencies. Now banks can maintain position within approved limits. This change means
- a. Capital account convertibility has been introduced
  - b. Current account convertibility has been introduced
  - c. Banks have greater freedom in managing their forex exposure**
  - d. Banks are given opportunity to make profit out of forex dealings
18. Central Bank of India is a much bigger bank than Federal Bank Ltd in various banking parameters. Hence naturally, the limits fixed by the boards of the respective banks for their forex treasuries are likely to be higher in Central Bank of India. This limit is higher because the following is more in Central Bank of India
- a. Total of Tier I & Tier II capital**
  - b. The number of dealers
  - c. The counter party limits available in international markets
  - d. The forex customers base
19. A bank has three foreign branches and the three branches have open position as: Branch A: + Rs 15 crores, Branch B: + Rs 5 crores, Branch C: - Rs 12 crores. As per RBI guidelines for calculating NOOP, the open position for the overseas branches taken together would be
- a. Rs 5 crores
  - b. Rs 8 crores

- c. **Rs 20 crores**
  - d. Rs 32 crores
20. Of the various limits fixed by the Board of a bank for the forex treasury, the following need to be reported to RBI soon after such approval:
- a. Counter party limit & Gap limit
  - b. Gap limit and open position limit
  - c. Intra day and overnight limit
  - d. **Net overnight limit and aggregate gap limit**
21. Inflow into foreign currency account of the bank does not arise on account of
- a. Customer related transactions
  - b. **Sell buy swaps**
  - c. Deposits
  - d. Borrowings
22. For calculating the currency wise exposure limit for a treasury, as per RBI guidelines, the open position is the aggregate of all the below except
- a. Net spot position
  - b. Net forward position
  - c. **Net futures position**
  - d. Net options position
23. In bank's treasury books, there is a risk of concealed overdraft and RBI advises control on this aspect. This concealed overdraft
- a. **Can arise in case of vostro accounts**
  - b. Can arise in case of nostro accounts
  - c. Is a notional entry and is actually not an overdraft to anyone
  - d. Means an outflow of foreign exchange
24. While auditing the books of the front office of the treasury of a bank, you observe that there are regular trading transactions done by the dealer after office hours and in many cases from the residence of the dealer through electronic network devices. In your opinion,
- a. These are highly illegal and prone to risk and should be stopped
  - b. These are allowed if the trades are done to make profit
  - c. **These are allowed if the Bank's policy document permits**
  - d. These are allowed exclusively for closing bank's position
25. As per RBI guidelines, main audit areas like "limit system, determination and reconciliation of positions and results, changes in the EDP systems" should be subject to the following audit
- a. **Risk based audit annually**
  - b. Concurrent audit
  - c. System audit
  - d. Internal audit
26. For deals between banks, deal confirmation slips are to be sent. If they are computer generated,
- a. They have to be compulsorily signed
  - b. They need not be signed, if the slip contains a narration to that effect
  - c. **Unsigned such slips are acceptable if bank has prior signed a stamped agreement covering this**
  - d. Such slips can be sent electronically to the counterparty bank

27. Where Clearing Corporation of India Ltd [CCIL] accepts a trade reported to it under its forex settlement by the dealing banks,
- The two banks need not bother further regarding settlement
  - CCIL becomes the central counter party**
  - The exchange rate for the trade will be advised by CCIL
  - CCIL guarantees the solvency of the counterparties & not the settlement process
28. Where trades are settled through Clearing Corporation of India Ltd [CCIL], the process of netting by novation takes place. In this,
- The bilateral relationship between each participant and CCIL is substituted with bilateral contracts between the two participants
  - The relationship between the participants & CCIL is substituted with bilateral contracts between each participant and CCIL
  - The bilateral relationship between the two participants is substituted with bilateral contracts between each participant and CCIL**
  - The relationship between the two participants is substituted with contracts between them by CCIL
29. Following types of forex trades are currently settled through CCIL
- All USD/INR transactions
  - All derivative transactions including Forwards USD/INR transactions
  - All transactions in currencies which cannot be settled directly
  - Inter-bank Cash, Tom, Spot and Forward USD/INR transactions**
30. Clearing Corporation of India Ltd [CCIL] has fixed a Net Debit Cap of USD 90.00 million and margin factor of 4.5% for a Bank. The bank has contributed USD 2 million for the Settlement Guarantee Fund. What is the exposure limit available to the bank?
- USD 4.05 million
  - USD 20 million
  - USD 44.44 million**
  - USD 92 million
31. An inside/outside swap with reference to CCIL forex settlement system :
- Allows a member to cover a position in breach of its exposure limit**
  - There will be a swap trade for the same settlement date with CCIL
  - Means a process to rectify an error in an earlier settlement with CCIL
  - Is an illegal trade undertaken by any bank in the CCIL platform
32. Which of the statement is true in respect of Clearing Corporation of India Ltd [CCIL] – Continuous Linked Settlement [CLS] product offering?
- CCIL a direct participant in CLS
  - There is direct relationship between CCIL and CLS Bank
  - There is direct relationship between member banks and the Settlement member
  - CCIL acts as an aggregator and facilitates settlement through a Settlement Member**
33. Cash management primarily involves:
- Optimizing a firm's collections and disbursements**
  - Increasing and decreasing the level of cash equivalents to sustain a predetermined level of liquidity
  - Reconciling a firm's book balance with the firm's bank balance

- d. Determining the optimal level of liquidity a firm should maintain
34. Which of the following financial instruments is not considered a derivative financial instrument?
- a. Interest-rate swaps
  - b. Currency futures
  - c. Stock-index options
  - d. Bank certificates of deposit**
35. When debt is issued at a discount, interest expense over the term of debt equals the cash interest paid:
- a. Minus discount
  - b. Minus discount minus par value
  - c. Plus discount**
  - d. Plus discount plus par value
36. Following is one of the differences between Indian Accounting standard (IND AS) 32 and International Accounting Standard IAS 32 relating to financial instruments:
- a. The equity conversion option embedded in a convertible bond denominated in foreign currency is considered an equity instrument in IND AS 32 & not in the other**
  - b. The equity conversion option embedded in a convertible bond denominated in foreign currency is considered an equity instrument in IAS 32 & not in the other
  - c. The equity conversion option embedded in a convertible bond denominated in foreign currency is considered a debt instrument in IND AS 32 & not in the other
  - d. The equity conversion option embedded in a convertible bond denominated in foreign currency is considered a debt instrument in IAS 32 & not in the other
37. A hedge of an exposure to either overall changes in the fair value or changes in fair value attributable to a particular risk of a qualified hedged item is called
- a. A forward contract
  - b. A risk protection
  - c. A fair value hedge**
  - d. A cash flow hedge
38. To qualify for hedge accounting, which of the following conditions must be met?
- a. At the inception of the hedging relationship, the entity should have identified the risks being hedged and designated that hedge accounting will be applied
  - b. At the inception of the hedging relationship, the entity should have formal documentation of the hedging relationship, its purpose and method of assessing its effectiveness, and the method of accounting for the hedging relationship
  - c. The entity should have reasonable assurance that the hedge will be effective at the inception and throughout its term
  - d. All of the above**
39. Which of the following is an example of a natural hedge?
- a. The prices and costs are both determined in the global market place
  - b. The prices are determined in the global market place and costs are determined in the domestic market place
  - c. The costs are determined in the global market place and prices are determined in the domestic market place
  - d. Both b and c**

40. The IASB has split the hedge accounting phase into two parts viz.: general hedging and
- Macro hedging**
  - Specific hedging
  - Special hedging
  - Micro hedging
41. An investor holds 10 shares of X Ltd priced at Rs 10 each. To hedge against the shares' price falling, he buys a put option contract priced at Rs 1 per share for 10 shares with a strike price of Rs 8. The value of the item under hedge accounting would be
- Rs 100
  - Rs 108
  - Rs 110**
  - Rs 180
42. An examination of the sources and uses of funds is part of:
- A forecasting technique
  - A funds flow analysis**
  - A ratio analysis
  - Calculations for preparing the balance sheet
43. A firm receives cash for 30% of its sales with the remaining 70% being credit sales. Of the credit sales, 20% are collected in the month of sale, 60% in the month following the sale, and 20% in the second month following the sale. Forecasted sales for January through April are Rs 400,000, Rs 500,000, Rs 600,000, and Rs 400,000 respectively. What are total cash receipts in the month of April?
- Rs 120,000
  - Rs 400,000
  - Rs 498,000**
  - Rs 530,000
44. Assume that total cash receipts for January till June are Rs 100, Rs 120, Rs 80, Rs 60, Rs 120, and Rs 190 respectively. Also assume that total cash disbursements for January till June are Rs 80, Rs 100, Rs 80, Rs 150, Rs 150, and Rs 70 respectively. Your firm has a beginning cash balance at the beginning of January of Rs 55. At the end of what month is the firm forecasting a negative cash balance?
- June
  - May**
  - April
  - March
45. If following are the balance sheet changes:
- Rs 5,005 decrease in accounts receivable
  - Rs 12,012 decrease in notes payable
  - Rs 10,001 increase in accounts payable
  - Rs 8,950 decrease in net fixed assets

The "use" of funds would be:

- Rs 8,950 decrease in net fixed assets
- Rs 5,005 decrease in accounts receivable
- Rs 10,001 increase in accounts payable

- d. Rs 12,012 decrease in notes payable**
46. Which of the following is not disclosed in a bank reconciliation?
- Error made by the depositor in recording the amount of a check received from a customer
  - Error made by the bank in recording the amount of cash disbursement
  - Check received from a customer which proved to be uncollectible
  - Amount stolen by a salesclerk who did not capture several cash sales**
47. What would be the bank balance as at 11th May as reported in the bank statement in the following circumstance: As at this date the deposits awaiting clearance is Rs18,240 and cheques yet to be presented for payment is Rs 21,590; while the bank balance as recorded in the Cash book was Rs 9,480
- Rs 12,830 overdraft
  - Rs 12,830**
  - Rs 6,130
  - Rs 6,130 overdraft
48. The balance at bank as at 17th July is stated on the bank statement as Rs 18,450. Cheques yet to be presented to the bank on this date amount to Rs 19,720. Assuming that the balance in the Bank Account written up in the Cash Book differs only because of deposits awaiting clearance on that date amount to Rs 32,475, what is the bank balance to be reported in the Statement of financial position as at that date:
- Rs 31,205**
  - Rs 5,695
  - Rs 18,450
  - Rs 32, 475
49. A set of possible values that a random variable can assume and their associated probabilities of occurrence are referred to as:
- Probability distribution**
  - The expected return
  - The standard deviation
  - Coefficient of variation
50. Which of the following items is a model that describes the relationship between risk and expected return (in this model the expected return is equal to the risk-free return plus a premium based on the systematic risk of the security)?
- Beta
  - Characteristic line
  - Capital asset pricing model**
  - Efficient markets model
51. What is the beta for an average risk security? What is the beta for a Treasury bill?
- 1; 0**
  - 0; 1
  - Greater than 1; 1
  - 1; Greater than 1
52. Which of the following portfolios have the least risk?
- A portfolio of long-term United States Government bonds

- b. Standard and Poor's composite index
  - c. Portfolio of common stocks of small firms
  - d. A portfolio of treasury bills**
53. If the average annual rate of return for shares is 13%, and treasury bills is 3.8%, what is the average market risk premium?
- a. 13%
  - b. 3.8%
  - c. 9.2%**
  - d. None of the above
54. For a two-stock portfolio, the maximum reduction in risk occurs when the correlation coefficient between the two stocks is:
- a. +1
  - b. 0
  - c. -0.5
  - d. -1**
55. The beta of a risk-free portfolio is:
- a. 0**
  - b. +0.5
  - c. +1.0
  - d. -1.0
56. Efficient portfolios are those, which offer:
- a. Highest risk for a given level of expected return
  - b. The maximum risk and expected return
  - c. Highest expected return for a given level of risk**
  - d. All of the above
57. The market risk premium is:
- a. The difference between the rate of return on an asset and the risk-free rate
  - b. The difference between the rate of return on the market portfolio and the risk-free rate**
  - c. The risk-free rate
  - d. The market rate of return
58. As a treasurer, in your portfolio of stocks, a stock has a beta of 1.2. It would be expected to:
- a. Increase 20% faster than the market in up markets**
  - b. Increase 20% faster than the market in down markets
  - c. Increase 120% faster than the market in up markets
  - d. Increase 120% faster than the market in down markets
59. While calculating the risk reward of each unit, what will be the expected return on a security if there is an equal probability of it rising or falling by 10% in market value?
- a. 0%**
  - b. Need more information
  - c. 10%
  - d. 20%
60. As per RBI guidelines on Minimum Capital Requirement, the total risk weighted off-balance sheet credit exposure in the case of irrevocable commitments to provide off-balance sheet

facilities depends on the original maturity. In case your bank issues an irrevocable commitment with an original maturity of 12 months to issue a 6 month documentary letter of credit,

- a. It is deemed to have an original maturity of 6 months
  - b. It is deemed to have an original maturity of 12 months
  - c. It is deemed to have an original maturity of 18 months**
  - d. It is deemed to have an original maturity of 24 months
61. Your company has a sanctioned cash credit facility of Rs.100 lakh and you have used i.e. drawn Rs. 60 lakh. The credit conversion factor for the undrawn portion is 20% as per RBI guidelines. What is the total amount for which risk weight will be assigned to arrive at the risk weighted asset for the bank on account of your cash credit account?
- a. Rs 40 lacs
  - b. Rs 60 lacs
  - c. Rs 68 lacs**
  - d. Rs 100 lacs
62. While auditing the reconciliation records of the treasury of a bank, you observe that there are a large number of outstanding entries. You consider this as serious because an unreconciled entry could
- a. Mean an unrecognized risk exposure**
  - b. Mean an accounting problem
  - c. Lead to further audits and inspections
  - d. Invite wrath of RBI
63. For the purpose of booking profits, valuation of the foreign currency accounts is done on the valuation dates. For this purpose, the following balance is used for valuing
- a. Nostro balance
  - b. Mirror balance**
  - c. Vostro balance
  - d. Foreign currency account balance
64. Since profit valuation is to be done as on 31<sup>st</sup> March for annual accounts of the bank, in the reconciliation department of the treasury, on that day,
- a. All entries are to be reconciled and there should not be any outstanding entry
  - b. All entries are to be reconciled
  - c. Valuation is done as on that day, irrespective of reconciliation position**
  - d. No transactions are allowed that day to facilitate valuation
65. The mirror of nostro account of a bank is showing credit balance as on 31<sup>st</sup> March of a year. This means
- a. The nostro account is necessarily overdrawn as at year end
  - b. Valuation will result in loss in that bank's transactions
  - c. The bank has oversold position in the currency of that bank account
  - d. An early funding of the account is called for**
66. While auditing the books of treasury of a bank, you observed that the bank is maintaining accounts with several banks. One of such accounts is denominated in USD but is maintained with a bank in London. You will remark that
- a. This is an illegal account
  - b. This needs immediate RBI approval

- c. **Bank management should examine the feasibility of such account**
  - d. The account should be closed immediately
- 67. During audit of treasury of a bank, you were surprised that bank has never done reconciliation of several Vostro accounts it is maintaining. You will
  - a. Highlight this in your report
  - b. **Consider this as not a lapse of the bank**
  - c. Report this to RBI
  - d. Advise the treasury to reconcile urgently
- 68. 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
- 69. Proceeds of FCNR deposit with ICICI Bank Bandra branch amounting to US dollar two million are to be remitted abroad by means of TT remittance at the request of the depositor before due date to his USD account with ICICI Bank New York. However the depositor has not mentioned the reason for pre closure and outward remittance. The applicable exchange rate you will quote as the bank dealer [if your branch decides to remit] is
  - a. TT selling rate
  - b. **No exchange rate applicable**
  - c. Special rate to be obtained from chief dealer in view of the large amount involved
  - d. Your branch will not remit since the purpose is not mentioned
- 70. Investment in Industries by foreign entities results in inward foreign remittance.
  - a. Hence there is no restriction therefor in FEMA
  - b. They are invariably nonrepatriable
  - c. It always requires clearance from FIPB, Government of India
  - d. **There is a concept of sectoral cap for such investments**
- 71. With the introduction of FEMA,
  - a. Indian rupee became convertible for current account transactions
  - b. Indian rupee became convertible for capital account transactions
  - c. Indian rupee became convertible for all transactions
  - d. **Indian rupee's convertibility was officially codified in the act**
- 72. As per FEMA, the following is true
  - a. **An authorized person includes an authorized dealer**
  - b. An authorized dealer includes an authorized person
  - c. An authorized person is the same as an authorized dealer
  - d. An authorized dealer means a bank
- 73. As per FEMA, a chartered accountant means
  - a. FEMA does not define a chartered accountant; it deals with foreign exchange
  - b. **The same as defined in Chartered Accounts Act 1949**
  - c. An accountant qualified to audit forex transactions
  - d. An accountant who is empanelled by RBI under FEMA
- 74. As per FEMA, reasonable restrictions on current account transactions may be imposed by

- a. **Central Government**
  - b. RBI
  - c. FEDAI
  - d. Central Government and RBI together
75. Where a person is required to present his case before an adjudicating authority under FEMA
- a. The person has to be present personally
  - b. **Assistance of Chartered Accountant can be availed for such presentation**
  - c. In the absence of the person, only a legal practitioner can present the case
  - d. All presentations are made in writing electronically
76. As per SEBI guidelines, the stock broker has to change the auditor once every
- a. One year
  - b. Two years
  - c. **Three years**
  - d. Four years
77. Following is true as far as SEBI guidelines relating to audit of stock broking is concerned
- a. Statutory auditor of the stock broker can also do the internal audit of the same stock broker.
  - b. The auditor has to be on the panel of SEBI
  - c. The internal audit report has to be in SEBI prescribed format
  - d. **Statutory auditor of the stock broker cannot do the internal audit of the same stock broker.**
78. Demutualisation of stock exchanges does not involve the following
- a. It is a process of an exchange from a mutually-owned association to a company
  - b. **The ownership and the management get integrated**
  - c. The ownership and the management get separated
  - d. The legal structure of the exchange gets transformed to a business corporation
79. As a treasurer of a small corporation, you have decided to enter into share trading as a means to enhance profitability. You are aware that you have to open following accounts [mark what is not applicable]
- a. Demat account
  - b. Trading account
  - c. Bank account
  - d. **Client account**
80. Which is not a correct description of a risk rating methodology widely used world over for credit risk?
- a. Altman's Z score Model involves forecasting the probability of a company entering bankruptcy
  - b. Credit Metrics focuses on estimating the volatility of asset values caused by variation in the quality of assets
  - c. **Credit Risk + is a statistical method based on the banking industry**
  - d. KMV, through its Expected Default Frequency (EDF) methodology derives the actual probability of default for each obligor based on functions of capital structure, the volatility of asset returns and the current asset value

81. Risk that the Interest rates of different Assets/liabilities and off balance items may change in different magnitude is called
- Yield curve risk
  - Basis risk**
  - Reprice risk
  - Net interest position risk
82. Which of the following are not characteristics of an interest-rate forward contract?
- Specification of the actual debt instrument
  - Specification of the price (interest rate) on the debt instrument
  - Specification of the amount of the debt instrument
  - Specification of the place of the transaction**
83. Futures contracts are more successful than interest-rate forward contracts because they:
- Have greater default risk
  - Are less liquid
  - Are more liquid**
  - Have an interest rate tied to the discount rate
84. An option:
- That can be exercised at any time is called a European option
  - That can be exercised only at the expiration date is called an American option
  - Gives the purchaser a right to buy an underlying asset at a strike price**
  - Must be exercised by the owner
85. Futures differ from forwards because they are
- Used to hedge portfolios
  - Used to hedge individual securities
  - Used in both financial and foreign exchange markets
  - Standardized contracts**
86. Your company has to pay for goods you have ordered with foreign currency. You can hedge the foreign exchange rate risk by
- Selling foreign exchange futures short
  - Buying foreign exchange futures long**
  - Staying out of the exchange futures market
  - Doing none of the above
87. A put option gives the owner
- The right to sell the underlying security**
  - The obligation to sell the underlying security
  - The right to buy the underlying security
  - The obligation to buy the underlying security
88. You buy an option to buy treasury futures at 115. At expiration the market price is 110.
- The call will be exercised
  - The put will be exercised
  - The call will not be exercised**
  - The put will not be exercised
89. All other things held constant, premiums on call options will increase when the
- Exercise price falls**

- b. Volatility of the underlying asset falls
  - c. Term to maturity decreases
  - d. Futures price increases
90. If National Bank Ltd has more rate-sensitive assets than rate sensitive liabilities, it can reduce interest rate risk with a swap which requires the bank to
- a. Pay a fixed rate while receiving a floating rate
  - b. Receive a fixed rate while paying a floating rate**
  - c. Both receive and pay a fixed rate
  - d. Both receive and pay a floating rate
91. If you sold a wheat futures contract for \$3.75 per bushel and the contract ended at \$3.60, how much will you net per bushel? (Ignore transaction costs.)
- a. \$3.75
  - b. \$0.15**
  - c. \$3.60
  - d. None of the above
92. Suppose that the spot rate of exchange is \$1 = 5 francs. Suppose also that the 1-year interest rate is 7.5% for dollars and 9% for francs. What is the 1-year forward rate of exchange between dollars and francs?
- a. \$1 = 6.00 francs
  - b. \$1 = 5.86 francs
  - c. \$1 = 4.93 francs
  - d. \$1 = 5.07 francs**
93. If the one-year spot interest rate is 10% and two-year spot interest rate is 12%, calculate the one-year forward interest rate one year from today (approximately):
- a. 10%
  - b. 12%
  - c. 14%**
  - d. None of the above
94. As an option approaches its maturity date, its price will converge to:
- a. The time value of the option
  - b. Its intrinsic value**
  - c. The price of the underlying asset
  - d. The market interest rate
95. Which of the following collars is incorrectly specified?
- a. A lender's collar aims to keep an interest rate between an upper and lower limit by buying a call option and selling a put option
  - b. An importer's collar aims to keep an exchange rate between an upper and lower limit by buying sterling put option and selling a sterling call option
  - c. A borrower's collar aims to keep an interest rate between an upper and lower limit by buying a put option and selling a call option
  - d. A seller's collar aims to keep an exchange rate between an upper and lower limit by buying a sterling put option and selling a sterling call option**

96. As an options trader, you are holding 100 shares of the stock XYZ currently trading at \$48 in June. You decide to establish a collar by writing a JUL 50 covered call for \$2 while simultaneously purchases a JUL 45 put for \$1. Your total investment is
- USD 4700**
  - USD 4800
  - USD 5000
  - USD 200
97. What is a collar as an option trading strategy?
- It is holding shares and simultaneously selling protective puts and buying call options against that holding
  - It is holding shares and simultaneously buying protective puts and selling call options against that holding**
  - It is holding shares and simultaneously buying protective puts and call options against that holding
  - It is holding shares and simultaneously selling protective puts and selling call options against that holding
98. A financial instrument is said to possess convexity if the financial instrument's price
- Increases faster than corresponding changes in the underlying price**
  - Increases along with corresponding changes in the underlying price
  - Changes along with that of the underlying price
  - Increases faster than the prices of other instruments
99. The difference between knock-in and knock-out option is that
- For a knock-in option, the barrier option does not exist until the trigger is touched**
  - For a knock-out option, the option does not exist until the trigger is touched
  - For a knock-in option, the barrier option exists until the trigger is touched
  - The two are used for covering different types of exposure
100. In financial derivatives market, the difference between straddle and strangle strategies is that
- Straddles use at-the-money options, while strangles use out-of-the-money options**
  - Strangles use at-the-money options, while straddles use out-of-the-money options
  - Straddles use in-the-money options, while strangles use out-of-the-money options
  - Straddles use at-the-money options, while strangles use in-the-money options

## 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. As per comprehensive guidelines on derivatives issued by RBI, which of the following is not a generic derivative product to hedge an existing interest rate and forex exposure, on a standalone basis
  - a. Plain Vanilla Options (call option and put option)
  - b. Interest Rate Swaps
  - c. Currency Swaps
  - d. Instruments which are combination of two or more generic derivative products**
2. You are the treasurer of a medium sized private limited company. Before signing an option contract with your bank for covering a possible foreign exchange risk, as per RBI guidelines, you should get a board resolution of your company.
  - a. It should authorize you to sign the contract**
  - b. It can authorize you to receive the report on the transaction
  - c. It can be signed by you
  - d. It has to authorize someone else to sign the ISDA agreement
3. You are the treasurer of a bank. Before extending a facility to avail structured derivative product to a corporate, you should ensure that the corporate has a risk management policy in place which need not contain the following
  - a. Names of officials authorized to undertake transactions**
  - b. Designation of officials authorized to undertake transactions
  - c. Guidelines on risk identification, measurement and control
  - d. Guidelines and procedures to be followed with respect to revaluation and monitoring of positions
4. Which of the following statement is not true in case of repo transactions?
  - a. At the start, the seller delivers collateral to the buyer
  - b. On the maturity date, the seller repays the exact amount received at the start**
  - c. The amount paid by the buyer at the start is the market value including accrued interest
  - d. During the life of the transaction the credit risk of the collateral remain with the seller
5. If you are the treasurer of a bank, you undertake repo trade because
  - a. There is demand for borrowing the collateral**
  - b. There is no supply of that collateral in the market
  - c. You want to make profit since repo is a profitable transaction
  - d. Your management wants you to do so
6. The following is the best description of a repo rate
  - a. Rate at which RBI sells government securities to banks
  - b. Rate at which banks borrow from RBI**
  - c. Rate at which RBI lends in the market

- d. Rate offered by banks to prime customers
7. Dollar denominated deposits, held in banks outside the U.S. are referred to as:
- a. Eurocommercial paper
  - b. Eurodollar deposits**
  - c. Reverse repurchase agreements
  - d. Euro commercial deposits
8. You are placing an order for new Treasury bills, at the upcoming auction. You are placing an order for a face value of 200 crores. You do not specify a price with the order. You are
- a. Ordering a repo
  - b. Ordering a reverse repurchase agreement
  - c. Hoping to receive a banker's acceptance
  - d. Placing a non-competitive bid**
9. Following statement is not true in relation to Original Issue Discount
- a. Book value = Face value – Original issue discount
  - b. Book value = Face value + Original issue discount**
  - c. Zero coupon bond is an example of original issue discount
  - d. No interest is paid on original issue discount instrument till maturity
10. The potential tax liability in case of original issue discount bond can be any of the following except
- 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 maturity value of the bond**
11. If A lends B Rs 4000 and B agrees to pay A Rs 10000 at the end of six years in settlement, which is not a correct statement?
- a. We can say this loan has Rs 6000 original issue discount
  - b. The context of original issue discount is not applicable here**
  - c. For tax purposes, Rs 6000 is interest earned by A
  - d. The interest is taxable in respective year
12. The term original issue discount and its tax treatment is relevant under
- a. Indian income tax
  - b. US inland revenue service**
  - c. European Union tax regime
  - d. In all the above jurisdictions
13. One comparable product in India where there is something similar to Original issue discount exists is
- a. Fixed deposit with bank where interest is paid on maturity**
  - b. Home loans with EMI based payment
  - c. All term loans availed from banks
  - d. There is no comparable product in India
14. In which of the situation, RBI has greater regulatory concern?
- a. A loan account is restructured and is classified as NPA
  - b. A loan account is restructured and is classified as standard account**
  - c. A loan account is restructured and continued to be classified as NPA

- d. In all the above cases, equal concern
15. RBI plays a role in debt restructuring and classification because of
- a. Moral hazard relating to classification as NPA
  - b. Application of prudential guidelines on classification
  - c. Time frame for upgradation of restructured account
  - d. All the above reasons**
16. Debt restructuring is a welcome exercise by both banks and borrowers.
- a. This statement is incorrect
  - b. It is welcome by borrowers because they get concessional interest rate**
  - c. It is correct because banks can write off the restructured account
  - d. It cleans the books of the bank permanently
17. Following is not one of the reasons often mentioned for increasing debt restructuring
- a. Increased interest rate**
  - b. Excessive leveraging during boom time
  - c. Deficiency in project appraisal
  - d. Aggressive repayment schedule
18. Internationally, if there is a concept of debt restructuring, which of the following is true
- a. IMF approach is a voluntary support operations for a company in financial difficulties
  - b. London approach is a Bank of England directive on voluntary support operations for a company in financial difficulties
  - c. London approach is a voluntary support operations for a company in financial difficulties**
  - d. Internationally, there is no concept of debt restructuring, since debt recovery mechanism is much more straightforward
19. CDR mechanism in India works on the principle of
- a. Statutory RBI advice
  - b. Non statutory institutional structure**
  - c. Banks and borrower agreeing
  - d. Equity to the society
20. The status of resident and nonresident Indian is defined
- a. Under the provisions of FEMA & Income tax Act separately**
  - b. Under the provisions of Income tax Act only
  - c. Under the provisions of Income tax Act which is also valid under FEMA
  - d. In Indian Citizenship Act
21. Your company has sent two sales executives abroad to market the products. They were given USD 21000 & also USD 15000 respectively, due to difference in seniority level. Not only did they mix the exchange and spent collectively but they also purchased raw materials out of this and brought that to India. They surrendered the balance amount of USD 500 each on arrival. From FEMA angle,
- a. It is illegal
  - b. It needs reporting to RBI
  - c. It is permitted**
  - d. The balance amount should not be accepted when they surrender it
22. The foreign exchange trading hours for interbank market are

- a. **Same throughout India**
  - b. Varies from centre to centre
  - c. 24 X 7
  - d. Decided from time to time
23. On crystallization of an export bill,
- a. The customer's liability stands extinguished
  - b. **There is no more forex risk on account of that bill**
  - c. The advance outstanding should be recovered fully
  - d. The bill gets paid
24. If an export bill is crystallized, it means
- a. Customer is not good
  - b. Exchange control regulations are violated
  - c. Error in application of exchange rate
  - d. **The bill is overdue**
25. TT selling rate is not applied in case of
- a. Crystallization of export bills
  - b. Recovery of an overdue export bill
  - c. **Crystallization of import bills**
  - d. Making an outward remittance in the form of DD
26. If an export bill is paid before due date
- a. There is no question of any loss to the exporter
  - b. **There can be loss to the exporter due to recovery of swap cost**
  - c. The exporter always net gains due to refund of pro-rata interest paid by the bank
  - d. Export bill cannot be paid before contractual due date
27. In case of delay in crediting realized export bill proceeds, the compensation is paid as per guidelines issued by
- a. **FEDAI**
  - b. RBI
  - c. Government of India
  - d. Banks themselves as part of customer service
28. As per FEDAI guidelines, if the due date for crystallization is Friday, which is declared as a holiday, the bill is to be crystallized on
- a. Previous working day viz.: Thursday
  - b. Next Saturday
  - c. Next Monday
  - d. **Next working day**
29. Contracts for which payments are received through the Asian Clearing Union (ACU) shall be generally denominated in
- a. **ACU Dollar**
  - b. US dollar
  - c. Asian dollar unit
  - d. Currency of the invoice
30. Special Economic Zone (SEZ) is
- a. a specifically delineated duty free enclave

- b. deemed to be foreign territory for the purposes of trade operations and duties and tariffs.
  - c. Itself not exporting but enables units therein to exports
  - d. All the above**
31. Your company does not manufacture any goods but buys goods locally and exports. Under EXIM policy, your company is considered as.
- a. Trader exporter
  - b. Merchant exporter**
  - c. Third party exporter
  - d. Deemed exporter
32. As per rules advised under FEMA, the maximum amount that can be released for buying foreign lottery ticket is
- a. USD 10000 at a time
  - b. To the extent permitted under current account convertibility
  - c. Nil**
  - d. USD 100 at a time
33. You are sitting in your bank branch in the desk handling outward foreign exchange. John Smith [a British citizen] working in India for the last several years wins a lottery of Sikkim government for Rs one crore. He wants to remit the same abroad. Is it allowed?
- a. Yes, because he is a British citizen
  - b. Not allowed under our rules**
  - c. He has to seek RBI permission under FEMA
  - d. He can remit upto USD one million per year
34. As treasurer of the company, you are planning to Import machinery and to take advantage of lower interest burden, you propose to avail foreign currency loan without RBI permission. You know that you can do so upto
- a. USD 500 million
  - b. USD 20 million**
  - c. INR 100 crores
  - d. The extent lender is agreeable
35. As treasurer of the company, you are planning to Import machinery and to take advantage of lower interest burden, you propose to avail foreign currency loan. Withholding tax is applicable if that loan is availed from
- a. An NRI
  - b. ICICI Bank London branch
  - c. ICICI Bank branch situated in an SEZ
  - d. Barclays Bank Tokyo**
36. As treasurer of the company, you are planning to Import machinery from Japan and to take advantage of lower interest burden, you propose to avail foreign currency loan. You know that there is no restriction on the following for availing the ECB loan
- a. From whom to borrow
  - b. Who can borrow
  - c. In which currency to borrow**
  - d. The period of the loan

37. Your company proposes to avail foreign currency loan due to lower rate of interest. The lending bank abroad is agreeable to sanction the same if you can arrange a bank guarantee from your bank in India. Which of the following is true?
- If you are availing an ECB, the bank cannot issue a guarantee**
  - If you are availing it as a trade credit, the bank cannot issue a guarantee
  - If you are availing an ECB, the bank can issue a guarantee
  - Bank cannot issue a guarantee whether it is availed as Trade credit or ECB
38. You are in charge of the ALM desk in the treasury of the bank. As per RBI guidelines, for managing the Assets & Liabilities, you should set prudential limits on individual Gaps. The prudential limits should have a bearing on the
- Equity
  - Total assets
  - Earning assets
  - Any or all of the above**
39. The difference between Rate Sensitive Assets and Rate Sensitive Liabilities for each time bucket is known as the Gap and as Bank's ALM head, you have created a large Gap.
- The Bank is in a position to benefit from declining interest rates by having a negative Gap**
  - The Bank is in a position to benefit from rising interest rates by having a negative Gap
  - The Bank is in a position to benefit from declining interest rates by having a positive Gap
  - The Gap does not necessarily indicate the profit or loss due to movement in interest rate
40. As a mid-office staff in the bank, you are preparing a board note to develop an internal Risk Framework for Forex Transactions as part of forex risk management policy The note should establish risk thresholds for each type of exposure by stipulating
- The amount of cash that the company is willing to expend to reduce and protect exposures
  - The level above which a foreign currency exposure requires protective action
  - The risk tolerance limits which should be independent of the size of the business**
  - The degree of fluctuation in corporate earnings resulting from adverse exchange rate movements
41. You are the compliance officer of a bank under PMLA 2002. Your bank has to maintain a record of all prescribed transactions as per that. Which of the following is not correct relating to such documents?
- To maintain whether such transactions comprise of a single transaction or otherwise
  - Bank is bound to submit the same to the authorities only if there is court order**
  - A series of transactions integrally connected to each other if such series of transactions take place within a month
  - 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
42. Your company is going for an expansion in an unrelated area and its commercial viability is yet to be established. However, during discussions with potential investors, a foreign venture capital investor showed interest in investing. You are aware that it
- 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
43. As per The Chit Funds Act, 1982, chit means a transaction
- a. In which subscribers earn high interest during the period when they have subscribed
  - b. In which persons subscribe periodically during definite period and each by lot or auction is eligible for a prize amount**
  - c. In which subscribers get money as and when they want during the period when they have subscribed
  - d. In which subscribers pool money to help each other during the period when they have subscribed
44. You are the treasurer of the asset management company of a new mutual fund. You are aware that 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
45. As per Technical Committee of the International Organization of Securities Commissions [IOSCO] issued by BIS, following is not true of Financial Market Infrastructure [FMI]:
- a. It facilitates the clearing, settlement, and recording of monetary and other financial transactions
  - b. It refers to systemically important payment systems
  - c. It is defined as a multilateral system among participating institutions
  - d. It refers to the physical infrastructure available in the financial market including connectivity, system to capture the transactions and other resources**
46. You are the tax compliance officer of the AMC of the mutual fund. In your opinion, whether the amount charged as 'entry and exit load' from the investor by a mutual fund is liable to service tax?
- a. Both entry & exit loads do not attract service tax**
  - b. Both entry & exit loads attract service tax
  - c. Entry load attracts service tax
  - d. Exit load attracts service tax
47. 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**
48. You are at the central office of the company in Mumbai. The company has units in Chennai. Kolkatta and Ahemdabad. The units deal with different products and hence have different bank

accounts and funds management functions. You have a challenge to answer to your board which has asked on your proposal of centralisation of treasury function. You will answer that it

- 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
49. According to SEBI guidelines, investment advice
- a. Includes financial planning**
  - b. Does not include advice selling securities
  - c. Does not include oral advice
  - d. Includes advice given through newspapers
50. As per SEBI Rules 1993, who is a discretionary portfolio manager?
- a. There is a concept of portfolio manager and not Discretionary Portfolio Manager
  - b. A wealth manager with enough discretion
  - c. Discretionary Portfolio Manager is defined as a portfolio manager appointed at the discretion of the client
  - d. A portfolio manager who exercises any degree of discretion on management of the portfolio of securities of the client**
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