Roll No……..……..

Membership No……

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

Paper 2

17th May, 2015

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. 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 : 17th May, 2015
Centre : Delhi/ Mumbai /Chennai/Bangalore/ Pune

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

Checked by **Verified by**

CERTIFICATION COURSE ON FOREX AND TREASURY MANAGEMENT

S. No.	Total Number of Questions	Questions to be answered	Total Marks	Marks Obtained
Multiple Choice - Section A	65	65	65	
Short Notes – Section B	7	5	25	
Case Study – Section C	2	1	10	
Total	74	71	100	

Section A

Number of questions: 65

Marks: 65

Multiple choices: There may be more than one correct answer. Please [✔] mark for the correct answer.

Part A: Answer all questions. 1 mark each

1. Chicago Mercantile Exchange took the shape of S&P and is now regarded as:
   a. S&P 200
   b. S&P 500
   c. S&P 100
   d. S&P CNX 100
2. Current price per share is Rs.180, In case it is possible to borrow money in the market for securities transactions at 24% p.a. Calculate the theoretical minimum price of a 6-month forward/future contract?
   a. 195.80
   b. 212.60
   c. 198.60
   d. 201.60
3. MTM Positioning stands for?
   a. Mark to mark
   b. Market to market
   c. Mark to market
   d. Money to market
4. The minimum Contract size on Currency Futures on USD/INR is ?
   a. Size of the company's working capital cycle
   b. 1000USD
   c. 1 Million USD
   d. No restriction or guidelines
5. In the context of financial futures?
   a. As the futures price minus the spot price.
   b. As the Spot price minus the futures price
   c. As the base rate Unit used by banks
   d. Future realization of foreign investments sold today
6. A Corporate who Buys USD Call Option at Strike Price Rs. 65 for March 2016 expiry (Premium paid- Rs 4) and Spot price being Rs 62 shall perform the following?
   a. Shall exercise the Option only if Market Rate goes beyond 62
   b. Shall exercise the Option only if Market Rate goes beyond 65
   c. Shall exercise the Option only if Market Rate goes beyond 67
   d. Shall exercise the Option only if Market Rate goes beyond 66

7. If a company has an expectation of Increase in Libor linked loan which has been taken by such Corporate then they should enter into?
    a. Fixed to Floating Rate Swap
    b. No Interest Rate Swap
    c. Floating to Fixed Interest Rate Swap
    d. None of the above
8. In a Risk Management Policy, specific coverage should be given to?
    a. Type of permitted Instruments to hedge
    b. Maximum limits of currency hedge should be laid down
    c. Audit related issues on Treasury management
    d. All of the above
9. Buy Call Option would be a suitable for which of the following Options?
    a. You are an exporter and would like to buy $
    b. You are an importer and would like to sell $
    c. You are an importer and would like to buy $ or any Foreign currency
    d. You are an importer and want to do both sell and buy $
10. Buy Put contracts are also known as ?
    a. Bullish contracts
    b. Insurance contracts
    c. Getting a right to sell foreign currency in local currency
    d. Both b and c
11. Infosys Technologies Limited (India) can't take position of which of the following hedge structures in his books?
    a. Fair value hedging
    b. Cash flow hedging
    c. No investment hedging
    d. All of the above
12. Which of the following functions not pertains to Treasury of a Corporate?
    a. Treasury front office
    b. Treasury middle office
    c. Treasury back office
    d. Loan department
13. What do you mean by Swap Annualized Premium either for an exporter or importer?

    a. It is % equivalent of premium received or paid by exporter or importer over spot rate
    b. It is a Reverse repo rate charged by banks from RBI
    c. Excess rate charged by one bank over other on overnight basis
    d. It is a Repo rate charged by RBI from banks

14. Which one of the following is odd man out in respect to Treasury Front Office?

a. Buy and Sell of FX in Interbank market
b. Taking care of documentation of Treasury function
c. Taking new and reversing of old positions as per Corporate mandate
d. Buy and Sell of Securities in Interbank market

15. Sapient Technologies Limited (India) is an Indian counterpart of US listed firm Sapient Technologies United States having INR as functional currency. Sapient India is having $ A/R with Sapient US. Sapient India is facing which of the following exposures during consolidation in $ books?

a. Transaction Exposure
b. Translation Exposure
c. Transaction & Translation Exposure
d. Revaluation Exposure

16. Non banking Financial companies (NBFCs) are financial institution that ?

a. Hold banking licence
b. Does not hold banking licence
c. Are government undertaking institutions
d. None of these

17. The components of traded price of an option?

1. Time value
2. Intrinsic value
3. Arbitrary value
4. Underlying value

a. 1& 3
b. 2 & 4
c. 3 & 4
d. 1 & 2

18. Binomial Tree method is used to value ____(1)_____ options while Black Scholes method is used to value _____(2)_____ options. ?

a. 1. European and 2. American
b. 1. American and 2. European
c. 1. Put and 2. Call
d. 1. Call and 2. Put

19. In India hedge fund belongs to.....Alternate Investment Management class ?

a. Category I
b. Category II
c. Category III
d. None of the above

20. Examples of financial derivatives does not include ?
    - **a. Loans**
    - b. Swaps
    - c. Options
    - d. Futures
21. Financial risk management includes hedging techniques which do not include?
    - **a. Foreign exchange swaptions**
    - b. Forward interest rate agreements
    - c. Foreign exchange fixed forward contract
    - d. Foreign exchange option forward contracts
22. A swap is not?
    - a. A hedging technique
    - b. A protection against downside interest or exchange rate risk
    - **c. A futures contract**
    - d. A flexible derivative
23. The development financial corporation in India that got merged with a bank?
    - a. IDBI
    - **b. ICICI**
    - c. IDFC
    - d. UTI
24. EEFC Denotes?
    - **a. Exchange Earners foreign currency account**
    - b. Importer's account with bank
    - c. Account maintained by a exporter with RBI
    - d. None of these
25. As per the section 16 of the banking regulation act ,1949 a person can be made director in how many banking companies ?
    - a. Four
    - b. Twenty
    - **c. one**
    - d. two
26. Banking ombudsman means?
    - a. **A person to whom customer can approach for redress of his grievances**
    - b. Person appointed to recover dues from defaulting borrowers
    - c. A person appointed by RBI to oversee the functioning of foreign banks Net options position
    - **d.** A person appointed to settle dispute between employees and management

27. To curb insider trading, SEBI has stipulated that, those investors who have more than 5% stake in any company, has to inform the company within …….days, if their stake is altered by more than 2%. ?

a. 10
b. 8
c. 5
d. 4

28. Securities Lending and Borrowing (SLB) is the mechanism introduced by SEBI?
a. For providing settlement of stocks sold short
b. For raising loans against stocks
c. For settlement of short selling of securities
d. None of these

29. The performance of which scheme does the national bank monitor ?
a. Liberalized finance scheme
b. Golden jubilee rural housing finance scheme
c. Energy efficient housing finance scheme
c. Finance scheme for indirect loans

30. A collecting bank gets statutory protection under?
a. RBI act
b. Banking regulation act
c. Negotiable instruments act
d. Indian contract act

31. As per chit fund act,1982 what percentage of security is required to deposited at the time of registration of chit fund ?
a. 100 %
b. 50 %
c. 75 %
d. 33 %

32. A Close ended mutual fund has a fixed ?
a. NAV
b. Fund Size
c. Rate of return
d. Number of distributors

33. As per SEBI Guidelines a due diligence certificate is not?
a. Signed by a compliance officer of mutual fund
b. A certificate that means all legal formalities of a scheme are completed
c. A part of offer document
d. Attached to annual report

34. Contingent deferred sales charge (CDSC)?
a. Is higher for investors who stay invested in the scheme longer
b. Is lower for investors who stay invested in the scheme longer
c. Is the same for all investors irrespective of how long they stay invested
d. Is not allowed to be charged to mutual fund investors in India

35. Distribution tax should be taken into account while computing net returns from ?
    - **a. Debt funds**
    - b. Equity fund
    - c. Both of the above
    - d. None of the above
36. Most individuals invest in insurance policies for?
    - a. Tax benefits
    - b. Easy liquidity
    - c. High returns
    - **d. Risk protection**
37. In terms of PMLA, Records of Cash Transaction of Rs. 10 Lacs and Suspicious Transactions are required to be maintained for a Period of?
    - a. 5 years
    - **b. 10 years**
    - c. 15 years
    - d. 25 years
38. Which Section of Banking Regulation Act, 1949 provides Nomination for Payment of Depositor's Money?
    - a. Section 42
    - b. Section 24
    - c. Section 110A
    - **d. Section 45ZA**
39. Non Banking Financial Corporation's (NBFCs) are otherwise known as ?
    - a. Narrow banks
    - **b. Para banks**
    - c. Virtual banks
    - d. Link banks
40. As per section 4 of the PMLA, 2002 the maximum allowable imprisonment is ?
    - a. 5 years
    - b. 3 years
    - **c. 7 years**
    - d. 9 years
41. Capital adequacy ratio to be maintained by banks as per BASEL-III guidelines is?
    - **a. 9 %**
    - b. 7%
    - c. 8%
    - d. 11 %
42. Quantum of FDI allowed in single brand retail is?
    - a. 51 %
    - b. 49%
    - c. 74 %
    - **d. 100 %**

43. As per SEBI (ICDR) guidelines, the market capitalization (during past 3 years) required for issuing IDR is?
    a. US$ 300 million
    b. US$ 100 million
    c. US$ 80 million
    d. US$ 150 million
44. Full fledged money changers are authorized to undertake?
    a. Only sales transactions
    b. Only purchase transactions
    c. All types of foreign exchange transactions
    d. Purchase and sales of foreign currency notes, coins and travellers cheque
45. An authorized person under FEMA does not include?
    a. An exchange broker
    b. An offshore banking unit
    c. An authorized dealer
    d. An authorized money changer
46. Amendments of FEMA regulations are communicated by RBI in the form of ?
    a. AD (MA) Circulars
    b. AD (GP) Circulars
    c. AP (DIR series) circulars
    d. Public notices
47. Foreign exchange market is considered 24hour market because?
    a. It is open all through the day
    b. Due to geographical dispersal at least one market is active at any point of time
    c. All transactions are to be settled within 24 hours
    d. Minimum 24 hours must lapse before any transaction is settled
48. The acronym SWIFT stands for?
    a. Safety Width in Financial Transactions
    b. Society for Worldwide International Financial Transactions
    c. Society for Worldwide Interbank Financial Transactions
    d. Swift Worldwide Information for Financial Transactions
49. FEDAI does not cover?
    a. Hours of business of foreign exchange market
    b. Interest for late settlement interbank dealings
    c. Forward contract with customers
    d. None of the above

50. The current market price of a share of Disney stock is $30. If a call option on this stock has a strike price of $35, the call?
    a. Is out of the money
    b. Is in the money
    c. Can be exercised profitably

d. Both b and c

51. Lookback options have payoffs that?

a. Have payoffs that only depend on the minimum price of the underlying asset during the life of the option.
b. have payoffs that depend in part on the minimum or maximum price of the underlying asset during the life of the option
c. Have payoffs that only depend on the maximum price of the underlying asset during the life of the option.
d. None of the above

52. A professional futures trader who specializes in buying or selling futures contracts for multiple days or weeks is called
a. Scalper
b. Day trader
c. Position dealer
d. Hedger

53. An interest rate collar is?
a. Buying a cap and buying a floor
b. Buying a cap and writing a floor
c. Writing a floor and writing a cap
d. An option on a futures contract

54. Two competing fully electronic derivatives markets in the U.S are?
a. NYSE and ABS
b. CME and pacific exchange
c. D-trade and IMM
d. Globex and Eurex

55. Which of the following is not a standard method of transferring funds when using concentration banking?
a. Payable through draft (PTD)
b. Wire transfer
c. Depository transfer check
d. Automated clearinghouse electronic transfer

56. Which of the following statements most accurately describes the modern approach to cash management?
a. Cash management involves the efficient disbursement of cash
b. Cash management involves the efficient collection and disbursement of cash
c. Cash management involves the efficient processing, collection and disbursement of cash
d. Cash management involves the efficient collection of cash

57. If a bank reduces its holdings of excess reserves by making loans ?
a. The monetary base will decrease
b. The money supply will increase
c. The money supply will remain constant
d. None of the above

58. In order for you to be indifferent between the after tax returns on a corporate bond paying 9% and a tax-exempt municipal bond paying 7%, what would your tax bracket need to be?

    a. 22.2 %
    b. 17.6 %
    c. 27 %
    d. 19.8 %

59. An auditor would most likely verify the interest earned on bond investments by:

    a. Testing internal control over cash receipts
    b. Vouching the receipt and deposit of interest checks
    c. Confirming the bond interest rate with the issuer of the bonds
    d. Re-computing the interest earned on the basis of face amount, interest rate and period held

60. The primary reason that a bank would maintain a separate compliance function is to?

    a. Better manage perceived high risks
    b. Strengthen control over the bank's investments
    c. Ensure independence of line and senior management
    d. Better respond to shareholder's expectations

61. When assessing the risk associated with an activity, the internal auditor should?

    a. Determine how the risk should best be managed
    b. Provide assurance on the management of the risk
    c. Update the risk management process based on risk exposures
    d. Design control to mitigate the identified risk

62. 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. Al of the above

63. The first level regulator of AMC is?

    a. Board of trustees
    b. Company law board
    c. SEBI
    d. RBI

64. As per SEBI (foreign venture capital investor) regulations,2000, minimum investible funds to be invested in unlisted equity shares or equity linked instruments is ?

    a. 50 %
    b. 33.33 %
    c. 66.67 %

d. 75 %

65. Tools of bank liability management include?

a. Buying federal funds

b. Issuing negotiable CDS

c. Issuing repurchase agreements

d. All of the above

Section B

Number of questions: 7

Marks: 25

Note: Answer any five questions. Each answer will carries 5 marks

[Unrelated answers & answers exceeding the brief will attract negative marks]

1. What do understand by Interest rate futures?

Ans. They are essentially over-the-counter (OTC) contracts traded on one to one basis among the parties involved, for settlement on a future date. The terms of these contracts are decided by the parties mutually at the time of their initiation. If a forward contract is entered into through an exchange, traded on the exchange and settled through the Clearing Corporation/ House of the exchange, it becomes a futures contract.

As one of the most important objectives behind bringing the contract to the exchange is to create marketability, futures contracts are standardized contracts so designed by the exchanges as to ensure participation of a wide range of market participants. In other words, futures contracts are standardized forward contracts traded on the exchanges and settled through their clearing corporation/house.

Futures contracts being standardized contracts appeal to a wide range of market participants and are therefore very liquid. On the other hand, the clearing corporation/house, in addition to settling the futures contracts, becomes the counter-party to all such trades or provides unconditional guarantee for their settlement, thereby ensuring financial integrity of the entire system. Therefore, although futures contracts take away the flexibility of the parties in terms of designing the contract, they offer competitive advantages over the forward contracts in terms of better liquidity and risk management. Now, it is simple to comprehend that futures contract on interest rates would be called interest rate futures. Let us look at the Forward Rate Agreements (FRAs) being traded in the OTC market. In case of FRAs, contracting parties agree to pay or receive a specific rate of interest for a specific period, after a specific period of time, on a specified notional amount. No exchange of the principal amount takes place among the parties at any point in time. Now, think about bringing this contract to the exchange. If we bring this FRA to the exchange, it would essentially be renamed as a futures contract. For instance, Eurodollar futures contract (most popular contract globally) is an exchange traded FRA on 3 months Eurodollar deposits rates. To comprehend the product further, now think we are entering into an FRA on an exchange. First thing would be that we would trade this contract on the exchange in the form of a standard product in terms of the notional amount, delivery and settlement, margins etc. Having entered into the contract, we can reverse the transaction at any point of time. Indeed, having reversed, we can again enter into the contract anytime. Therefore, these exchange traded FRAs (futures contracts) would be very liquidity. Further, in this contract, clearing corporation/ house would bear the counterparty risk.

The transaction mentioned above is pretty simple. But, world does not trade the interest rate futures so simply. Indeed, product designs are much more complicated and they are different

both at the long and short end of the maturity curve. Let us have a look at a few global products on interest rate futures.

2. Write a short note on ‘hedge accounting’?

Ans. A method of accounting where entries for the ownership of a security and the opposing hedge are treated as one. Hedge accounting attempts to reduce the volatility created by the repeated adjustment of a financial instrument's value, known as marking to market. This reduced volatility is done by combining the instrument and the hedge as one entry, which offsets the opposing movements. The point of hedging a position is to reduce the volatility of the overall portfolio. Hedge accounting has the same effect except that it's used on financial statements. For example, when accounting for complex financial instruments, such as derivatives, the value is adjusted by marking to market; this creates large swings in the profit and loss account. Hedge accounting treats the reciprocal hedge and the derivative as one entry so that the large swings are balanced out.

When the hedged item is a non-interest bearing financial instrument, “basis adjustment” is carried as part of the carrying amount of the hedged item

When the hedged item is an interest bearing financial instrument for which the effective interest rate method of accounting is used, “basis adjustment” to the carrying amount of the hedged financial instrument should be amortised to profit or loss. Amortisation should begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

<u>Conditions for hedge accounting</u>

- Formal designation and hedge documentation of the hedging relationship and the entity's risk management objective and strategy for undertaking the hedge
- The hedge is expected to be highly effective- Prospective
- For a cash flow hedge, forecast transaction is highly probable
- Effectiveness of the hedge can be reliably measured
- The hedge is assessed on an ongoing basis and determined to have been highly effective throughout the financial reporting periods for which the hedge was designated

3. State the objectives of internal audit of treasury?

Ans. Following are the main objectives of internal audit of treasury:

- Policy and procedures relating to all treasury activities have been framed and adhered to.
- To ensure physical and access control procedures are in place in the department.
- Appropriateness of the sources of inputs used for valuation treasury products.
- To check that there is accurate recording and accounting of positions.
- To verify that any violations are promptly reported.
- To ensure compliance with FEMA, RBI, SEBI etc regulatory requirements.
- To ensure that all the counterparty confirmations are received.
- Determine whether management has planned for liquidity needs for both normal operating conditions and emergency situations
- Ensure that limits are set for different procedures and they are adhered to in a consistent manner
- Ensure that reconciliation is being made timely and accurately.

4. Hyundai Motors exports cars to Germany, and every three months, it receives EUR 500,000 From car shipments. On March 1, the exchange between Indian Rupee and Euro is EUR/INR=70.7242. The Euro interest rate is 6% per annum, while the interest rate in India is 9% per annum. Hyundai wants to hedge its euro receipt through forward contracts for the Next 6 months. The 180 day forward rate is EUR/INR= 71.5642.

(i) Calculate the 180 day theoretical forward rate
(ii) Identify whether there is any arbitrage opportunity
(iii) If there is an arbitrage opportunity, calculate the arbitrage profit for EUR 500,000.

Ans. (i) To calculate the theoretical forward rate, the following steps are needed:

Step 1: Calculate the 180 day interest rate in India and in Germany.

180 day interest rate in India = 9% x 180/365 = 4.4384%

180 day interest rate in Germany = 6% x 180/365 = 2.9589%

Step 2: Calculate the theoretical forward rate.

FWD = SPOT X (1 + Rate of Int INR)/(1 + Rate of Int EUR)

90 day forward rate = 70.7242 x (1 + 0.044384/1.029589) = INR 71.7405

(ii) In order to identify whether the arbitrage opportunity exits or not, compare the actual forward rate with the theoretical forward rate. The theoretical forward rate is EUR/INR 71.7405, and the actual forward rate is EUR/INR 71.5642. Thus, the actual forward rate is lower than the theoretical forward rate and hence there exists an arbitrage opportunity. The forward contract is priced at a lower value and hence arbitrage requires buying the euro at the forward rate and selling it at the spot price.

(iii) To calculate the arbitrage profit on EUR 500,000.

Step 1: Borrow money in the foreign currency.

Borrow EUR 500,000 in Germany.

Step 2: Use the borrowed funds to buy in the home currency (Indian Rupee).

Amount in Indian Rupees that would be bought at the exchange rate of EUR 1 = INR 70.7242 is INR 35,362,100.

Step 3: Invest in local currency amount in India at the home interest rate Invest INR 35,362,100 at 9% for 180 days. The amount at the end of the 180 days Would be:

Amount at the end of the 180 days = 35,362,100 x (1 + 9% x 180/365) = INR = 36,931,596

Step 4: Convert the proceeds of the investment in the home country at the forward Rate into foreign currency. Amounting in euros on converting INR 36,931,596 at the forward rate of EUR 1 = INR 71.5642 is EUR 516,062.40.

Step 5: Pay the borrowed funds with interest in the foreign currency Amount to be repaid for the borrowed funds of EUR 500,000 at 6% for 180 days

= 500,000 x (1 + 6% x 180/365) = EUR 514,794.50

Step 6: Calculate the arbitrage profit as the difference between the home currency received from the foreign investment and the payment for the borrowed funds in the home currency.

Arbitrage Profit = EUR 516,062.40 – EUR 514,794.50 = EUR 1,297.92

5. As per the foreign direct investment policy what are the Entry routes for Foreign investment?
Ans. Investment coming from abroad by persons eligible to invest in India into Indian Companies is considered as Foreign Direct Investment only when the investment is made in exchange of equity shares, fully and mandatorily convertible preference shares or fully or mandatorily convertible debentures i.e., such instrument that would eventually convert Into equity shares.
The manner in which the investment can be made varies with the sector. These include Automatic Route and Approval Route.

Automatic Route

Under the automatic route, the investment can be made without any prior approval either Of the Government or the Reserve Bank of India in all activities/sectors as specified in the Consolidated FDI Policy, issued by the Government of India from time to time.

Government Route or Approval Route

Investments not covered under the automatic route requires the prior approval of the Government, which are by the Foreign Investment Promotion Board (FIPB), Department of Economic Affairs, Ministry of Finance, by making an application in the relevant Forms.
All of the above would effectively only apply to those investors who meet the eligibility Criteria as mentioned in the FDI Policy. It has been defined as follows:
" a non-resident entity can invest in India, subject to the FDI Policy except in those Sectors/ activities which are prohibited. However, a citizen of Bangladesh or an entity Incorporated in Bangladesh can invest only under the Government route. Further, a Citizen of Pakistan or an entity incorporated in Pakistan can invest, only under the Government route, in sectors/activities other than defence, space and atomic energy and Sectors/ activities prohibited for foreign investment."

6. State the eligibility criteria for grant of certificate for registration of 'merchant banker'?
Answer: Requirements to be a Merchant Banker
As per Regulation 6, the Board, shall take into account the following factors to consider Granting a certificate for registration .All matters which are relevant to the activities relating to merchant banker and in particular the applicant complies with the following requirements, namely :—
a) the applicant shall be a body corporate other than a non-banking financial company as defined under clause (f) of section 45-I of the Reserve Bank of India Act, 1934 (2 of 1934), as amended from time to time: Provided that the merchant banker who has been granted registration by the Reserve Bank of India to act as a primary or satellite dealer may carry on such activity subject to the condition that it shall not accept or hold public deposit;
b) The applicant has the necessary infrastructure like adequate office space, equipments, and manpower to effectively discharge his activities;
c) The applicant has in his employment minimum of two persons who have the experience to conduct the business of merchant banker;
d) A person directly or indirectly connected with the applicant has not been granted registration by the Board.
Explanation : For the purposes of this clause the expression "directly or indirectly connected" means any person being an associate, subsidiary or inter connected or group company of the applicant in case of the applicant being a body corporate;

e) The applicant fulfils the capital adequacy requirement specified in regulation 7;
f) The applicant, his partner, director or principal officer is not involved in any litigation Connected with the securities market which has an adverse bearing on the business of the Applicant;
g) the applicant, his director, partner or principal officer has not at any time been convicted for any offence involving moral turpitude or has been found guilty of any economic offence;
h) The applicant has the professional qualification from an institution recognised by the Government in finance, law or business management;
i) The applicant is a fit and proper person;
j) Grant of certificate to the applicant is in the interest of investors

7. As per Regulation (mutual funds) 61, for what purpose SEBI appoints an inspecting officer to inspect/investigate the affairs of a mutual fund, the trustee and the asset management company?

Ans. SEBI under Regulation 61 has the right to appoint one or more persons as inspecting officer to undertake the inspection of the books of account, records, documents and infrastructure, systems and procedures or to investigate the affairs of a mutual fund, the trustees and asset management company for purposes, namely :—
(*a*) To ensure that the books of account are being maintained by the mutual fund, the trustees and asset Management Company in the manner specified in these regulations;
(*b*) To ascertain whether the provisions of the Act and these regulations are being complied with by the mutual fund, the trustees and asset management company ;
(*c*) To ascertain whether the systems, procedures and safeguards followed by the mutual fund are adequate;
(*d*) To ascertain whether the provisions of the Act or any rules or regulations made there under Have been violated;
(*e*) To investigate into the complaints received from the investors or any other person on any matter having a bearing on the activities of the mutual funds, trustees and asset management Company;
(*f*) To *suo motu* ensure that the affairs of the mutual fund, trustees or asset management company are being conducted in a manner which is in the interest of the investors or the securities market.

Prior to such inspection and investigation, it is required that gives not less than ten days notice to The mutual fund, asset management company or trustees as the case may be. However, this requirement can be done away with where the Board is satisfied that in the interest of the investors no such notice should be given, it may, by an order in writing direct that such inspection or investigation be taken up without such notice. Further during the course of inspection or investigation, the mutual fund, trustees or asset Management Company against Whom the inspection or investigation is being carried out shall be bound to discharge his Obligations as mentioned in the guidelines.

Section C

Number of questions: 2

Marks: 10

Note : Case Studies. Answer any one. Max 10 marks

1. You are the treasury head of a corporate having significant import and export transactions& liquid funds. Most of your clients are time tested and you have been dealing with them without any LC support and the experience has been satisfactory. Recently, you secured an export order for USD 1 million from a large well known multinational but with whom you never had any dealing. Obviously, your company extended usance terms without any LC support to strengthen business dealings for future. The bill was discounted and the bill liability was Rs 6 crores. However, as feared, while the company assured to pay, it was not forthcoming on due date of 5th July. Your bank reminded you of the overdue bill. Irritated by this, you repaid the advance of Rs 6 crores with interest immediately. To your shock, you received a debit advice on 5th August from the bank that there is a liability created against your name for Rs 6.5 crores against this bill reference number of which Rs 6.2 crores has been received and further interest is due. Before you could talk to the bank on this, the buyer paid the bill on 8th August. You called your bank to express unhappiness on the whole episode. What do you think the bank will explain and what will be your reaction?

Answer: The bank will explain all about crystallization of export bills on 30th day if remains overdue as per FEDAI guidelines and that you had an option of crystallising even earlier. Since you never had overdue bills earlier, you were unaware of concept of crystallization and when you repaid the advance on 5th July or next day, you thought that the foreign currency component has also been taken into account, whereas the bank merely collected the money towards the liability and the forex liability remained continued till the bill was crystallised on 5th August. The fact that the bill was paid in the next three days did not help the situation because as on the date due for crystallization, bank did so. Thus there is a clear communication gap in educating customers by the bank on the foreign exchange aspect.

If the exchange rate on the date when the bill is finally realized is more than 62, then the corporate will get a surplus and the unhappiness will vanish but otherwise, it will remain asa sore point with bank quoting FEDAI rules and the corporate complaining that either the bank should have educated enough [e.g. should have checked with the exporter whether the bill is to be crystallised when the recovery was made or educated on what is crystallization and its significance in removing forex risk].

While a good answer will analyse these from both bank & corporate's perspective, the answer need not give any final 'judgmental answer' giving one final 'correct answer'. This situation has no correct answer which satisfies both the parties.

2. You are working in Foreign exchange department of a Bank for last 5 years in India. One of your clients based in Hyderabad has auto ancilliary manufacturing plant. The client has been dealing with your Bank for the past 20 years. You have become the treasury relationship manager of the client named Forex Plc.

In your meeting with the company CFO provides you with the following information about the company:

1. The company has vintage of 30 years and group turnover INR 5000 million.
2. Imports of the company is USD 250 million
3. Frequency of Outward remittance is once in a month.
4. The company does not believe in taking any type of hedge strategy.
5. The company does not take any views on currencies to enter into hedging strategies.

Since you are a firm believer of protecting the exposure by entering into relevant hedge strategies, you have advised the client to take an option of Buy Call @ 50 by paying a premium of Rs.2 and a Sell Put @ 46 by receiving a premium of Rs.2 with FRR (Forward Reference Rate) of INR48 for maturity 31st Dec 2015. Answer the questions that follow:-

a) Is the strategy genuine?
b) Is the option ATM/ITM/OTM?
c) Is the strategy zero cost?
d) Is it allowed on OTC by RBI?

Answer:

a) Yes, the strategy seems to be a genuine strategy. Both the options taken by the client (i.e.Importer) are on buy front, he seems to be a GENUINE IMPORTER. So strategy taken is a genuine one.

b) For selling the Put Option @ Strike price of 46 which is less than Forward Reference Rate i.e. is 48, such option is termed as Out the Money (OTM) Option at the time of taking/buying/holding/writing/selling the Option.

For Call Option whose Strike price is 50 which is more than Forward Reference Rate i.e. is 48, such option is termed as Out the Money(OTM) Option at the time of taking/buying/holding/writing/selling the Option.

Hence, both options are OTM (Out the Money).

c) Yes, the strategy is a zero cost strategy, since the premiums to be paid on Buying a Call Option has been offset against the premium received on Selling the Put Option.

d) Yes, as per the RBI Guidelines, a client can write an option on OTC but cannot be a net receiver of Premium. In the above advise the client is not a net receiver of premium, but only offsetting the premium.