Roll No……..……..

Membership No……

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

Paper 1

4th October, 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 : 4th Oct, 2015
Centre : Delhi/ Mumbai /Chennai/Kolkata/Bangalore/Kanpur /Pune/ Patna

(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. The term "pooling" as used in Treasury Management is indicative of

   a. Pooling of incoming cash from recurring and non-recurring sources
   b. Pooling of all divisional assets and liabilities to determine the true value of the company
   c. Consolidation of funds from a number of different accounts of the same corporate to improve value or yield
   d. **All of the above.**

2. Which statement is true about terms of trade credit of 4/10, net 30?

   a. A 10% cash discount is offered for payment before 30 days.
   b. A 4% cash discount can be taken for payment before the 10th of the following month
   c. **4% cash discount is given if the payment is made within 10 days, otherwise the full amount has to be paid within 30 days**
   d. No cash discount is offered after the eleventh day

3. Which of the following is the difference between subjective and objective methods?

   a. Subjective methods are statistical methods; objective methods are used based on the judgments / opinions of individuals within the company.
   b. Subjective methods are based on the judgments/opinions of individuals within / outside the company; objective methods use judgments / opinions within the company.
   c. Subjective methods use judgments / opinions of individuals within the company; objective methods use judgments / opinions of individuals outside the company.
   d. Subjective methods are based on the judgments / opinions of individuals within the company, objective methods are statistical methods.

4. Centralization of treasury function in a multi-division corporation

a. Increases the effectiveness of cash management through Netting
b. Increases the total amount of cash to be maintained
c. Allows the corporation to benefit from Leading and / or Lagging
d. Both (a) and (c) above

5. Forecasting inconsistencies can be minimized by:

a. Allowing managers to establish their own forecasts
b. Establishing a standardized economic forecast to be used by the firm, year in, year out
c. Generating current economic forecasts that are used throughout the firm
d. Requiring managers to establish their own forecasts

6. A letter of credit which allows the Issuing bank to make payment to the beneficiary in instalments is known as

a. Red clause L/c
b. Green clause L/c
c. Revolving L/c
d. Deferred L/c.

7. Which of the following is/are a subjective measure(s)?
a. Regression analysis
b. Trend analysis
c. Sales force estimates
d. Mean

8. If the current ratio is 2.00 and the quick ratio is 0.5 the proportion of quick assets to total current assets is

a. 10%
b. 25%
c. 40%
d. 50%

9. Cash management techniques are used

a. To step up the cash inflows and outflows
b. To decelerate accounts payables
c. To hasten the disbursements of accounts

d. To make audits

10. The term ‘net float’ represents

a. The total sum of cheques deposited but not yet collected
b. The total sum of cheques issued but not yet presented
c. The total sum of (a) and (b) above
d. The difference of (a) and (b) above

11. Functions of Chief Financial Officer are broadly categorized as

a. Controller and auditor
b. Controller and internal auditor
c. Controller and treasurer
d. Auditor and treasurer

12. The Lock box system

a. Is a system where customer payments are transferred electronically to companies
b. Is a system where a post box is placed outside the residence of creditors so that receivables are collected on a regular basis.
c. Is also known as the Home Banking system
d. Is a system by which customer payments are received, processed, deposited and transferred to the bank account in the headquarters of a company

13. Which of the following is/are spontaneous liabilities?

a. Sundry creditors
b. Salary accrued but not due.
c. Provision for payment of bonus
d. **All of (a), (b) and (c) above**.

14. A separate dedicated treasury department can be established

a. In Banks after obtaining permission from RBI
b. By Corporate after obtaining permission from RBI
c. **By banks to facilitate trading**
d. Corporate after obtaining permission from Registrar of Companies

15. The independent risk assessment of treasury function is done by?

a. Front office
b. Mid office
c. Back office
d. Both b and c

16. A Bank’s responsibility for reconciliation of the account is more

a. **For Nostro account than Vostro account**
b. For Vostro account than Nostro account
c. Or less same both for Nostro and Vostro accounts
d. For Nostro account or Vostro account depending on the balance available

17. If the degree of operating leverage is 3 and the degree of financial leverage is 2, it means that

    a. 1% change in EPS will be caused by 5% change in sales
    b. 1% change in EBIT will result in 3% change in EPS
    c. 1% change in sales will result in 3 percent change in EBIT and 6% change in EPS
    d. 1% change in EPS will be caused by 6% change in EBIT

18. Which of the following is a source of cash in a funds flow statement drawn on cash basis?

    a. Increase in inventory
    b. Decrease in accrued taxes
    c. Increase in receivables
    d. Increase in accounts payable

19. The accurate doubling period in given a rate of return R can be calculated by

    a. $(I + R)^n = 2$
    b. 72 / R
    c. 0.35 + 69/R
    d. Anyone of the formulas in (a), (b) and (c)

20. While evaluating a capital expenditure decision, usage of NPV as criterion poses a Problem of non-comparability of differing project sizes / outlays. One of the ways to overcome this problem is to make use of

    a. Internal Rate of Return (IRR)
    b. Payback Period
    c. Accounting Rate of Return
    d. Profitability Index (PI)

21. Which of the following would affect the Dividend yield directly?

    a. Retention ratio
    b. Book value per share
    c. Face value of a share
    d. Debt-equity ratio.

22. A project with higher than average risk offers an expected return of 16%.
    Which statement is correct if the company's opportunity cost of capital is 12% and the project's opportunity cost of capital is 18%?

a. Project NPV is positive; it should be accepted.
b. Project NPV is negative; it should be rejected.
c. Project NPV is positive but it should be rejected.
d. Project NPV is negative but it should be accepted

23. The demand for call money tends to widen during

a. January, February
b. July, September, November
c. December, March, June
d. February

24. A JPY Bond issued by an Indian entity in Singapore is termed as a

a. Straight Bond
b. FCCB
c. Floater
d. Euro Yen Bond

25. A USD Debt Security issued in USA and carrying a rate of interest that decreases with increase of LIBOR, is known as a

a. ADR
b. FRN
c. Inverse Floater
d. None of the above

26. A Bond that pays a coupon in one currency but is redeemed for a fixed sum in another is known

a. Yankee bond
b. Dual currency bond
c. Commodity bond
d. Euro bond

27. Which of the following instruments of monetary policy is the most important means by which the money supply is controlled?

a. Changing in reserve ratio

b. Open-market Operation

c. Manipulation in Government Spending

d. Changing in discount rate

28. Money market securities have very little?
    a. Default risk
    b. Price risk
    c. Marketability risk
    d. All of the above

29. Which of the following does not help to increase current ratio?
    a. Issue of debentures to buy stock
    b. Issue of debentures to pay creditors
    c. Sale of investment to pay to creditors
    d. Avail bank overdraft to buy machine

30. Which of the following is the largest investor in CPs (Commercial Paper) ?
    a. Financial institutions
    b. Corporate treasuries
    c. Scheduled Banks
    d. Mutual Funds

31. The gilt edged market refers to ?
    a. Government securities
    b. Semi government securities
    c. Corporate securities
    d. All of the above

32. Main role of middle office in treasury management?
    a. reconciliation
    b. purchase/sale of securities
    c. settlement
    d. implementation of risk management policy

33. In a customer facing treasury, the products offered includes?
    a. Derivatives
    b.G Secs
    c. International funding instruments
    d. all the above

34. Following is not a feature of treasury bill (T bill)?
    a. Not NBFC but only banks can invest in T bills
    b. T bills are issued by government of India
    c. T bills maturity varies between 91 & 364 days
    d. T bills are issued against short term borrowing requirement

35. Factoring refers to?
    a. Determining the aging schedule of the firm's accounts receivable
    b. **the sale of firm's accounts receivables to another firm**
    c. the determination of the average collection period
    d. scoring a customer based on the 5C's of credit

36. The total investment by banks in liquid/short term debt schemes of MFs with weighted average maturity of portfolio of not more than 1 year, will be subject to a prudential cap of _____ per cent of their net worth ?

a. 10%
b. 5%
c. 25%
d. 35%

37. To which of the following categories of ratios does Debt-Asset ratio belong?

a. Earnings ratios
b. Coverage ratios
c. Capital structure ratios
d. Liquidity ratios

38. If an investment project has a profitability index of 1.20, the

a. Cost of capital of the project is greater than its internal rate of return
b. Cost of capital used in the index calculation has to be less than 20%
c. Project's internal rate of return is 20%
d. Net present value of the project is positive

39. Finacle, a banking treasury framework software was devised by:

a. Cobit
b. Infosys
c. Tcs
d. KPMG and PWC

40. An ageing schedule illustrates the relationship between

a. Corporate personnel and job seniority
b. Profit and present value
c. The ratio of accounts receivable to sales
d. Accounts receivable and their average time outstanding

41. Forward spread means

a. The spread between two forward rates of different maturities
b. The spread between two option forward rates
c. The spread between outright forward rate and option forward rate
d. The spread between forward rate and spot rate

42. Which of the following will not cause a change in the bid-ask spread?

a. High market volatility
b. Trading volume
c. Decrease in forward maturity
d. Market downturn

43. Sterling denominated foreign bonds issued in the U.K. are called?

a. Geisha bonds
b. Yankee bonds
c. Bulldog bonds
d. Samurai bonds

44. Agarwal Constructions Ltd. Is showing a low dividend yield and high price earnings ratio. Then?

a. Price of its share is high
b. There is growth in the company
c. The investors in this share can expect capital gains
d. All of the above

45. Statutory Liquidity Ratio is unique in Indian banking system. The objective(s) of this is/are

a. To restrict expansion of bank credit
b. To ensure solvency of the banks
c. To augment banks investments in Government securities
d. All of the above

46. When the seller places the goods at his premises at the disposal of the buyer or any other named place, say works, factory, warehouse etc., then it is a contract of

a. Free carrier (FCA)
b. Ex works (EXW)
c. Cost and Freight (CFR)
d. Free on board (FOB)

47. Exchange rate system where the central bank intervenes to smoothen out exchange rate fluctuations is known as

a. Currency board system
b. Dirty float
c. Clean float

d. Fixed rate system

48. If the current yield on a bond is 9% and its face value is Rs. 1,000 with a coupon rate of 7% its current market price is

a. Rs. 778
b. Rs. 700
c. Rs. 845
d. Rs. 1175

49. 'Funded debt' is a?
a. Form of ordinary treasury bill
b. Debt funded by the government
c. Undated government security
d. Surplus funds provided by banks

50. Which of the following may not be a reason of low working capital?
a. Reasonable payables
b. Excessive stock piling
c. Abnormal bad debts
d. Bad collection mechanism

51. Promoting exchange rate stability
a. Is a responsibility of IMF
b. Is the overall objective of world bank
c. Is achieved by the central banks of various countries in consultation with IMF
d. Is not planned by anyone

52. Asian Development Bank [*mark the most appropriate choice*]
a. Is a subsidiary of World Bank
b. Helps member countries to reduce poverty
c. Is headquartered in Singapore
d. Supports Government efforts only

53. Following is not an organization belonging to 'world bank group'
a. WTO
b. IFC
c. MIGA
d. IDA

54. If an exporter wants a without recourse finance, the sure alternative is

a. Bill discounting
b. **Forfeiting**
c. Factoring
d. Co acceptance facility

55. As per RBI guidelines, the following statement is true relating to ALCO in commercial banks

a. The chief dealer is the head of ALCO
b. The chairman of the bank should be the head of ALCO
c. **The chief dealer is member of ALCO**
d. There is nothing called ALCO in banks

56. Under FEDAI rules, an option period is available for delivery of documents to

a. **Exporters**
b. Importers
c. Both exporters & importers
d. There is no such concept

57. Which is not true in respect of Return on Equity [ratio]

a. It measures how efficiently a firm can use the money from shareholders to generate profits and grow the company
b. It is a profitability ratio from the investor's point of view
c. It is a profitability ratio from the company's point of view
d. It can't be used to compare companies outside of their industries very effectively

58. Which of the following, a high debt company like Eswar Ltd should do to improve its debt-to-total assets ratio?

a) Borrow more
b) Shift short-term to long-term debt
c) Shift long-term to short-term debt
d) Making an IPO

59. In a GDR issue, the actual GDR is issued by

a. The depository
b. The custodian
c. The issuing company
d. The stock exchange where it is traded

60. A yield curve is

a. A curve that shows the yield on various securities
b. A curve showing interest rate movement over a period of time
c. **A representation of the relationship between interest rates and Time to maturity**

d. A graph showing the yield versus risk

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

62. If USD/INR spot is trading at 63.20 and one year fwd outright rate is trading at 63.30 then which of the following statements are true

a. Forward curve is almost flat or At the Money (ATM)
b. Forward curve is Deep In the Money (ITM)
c. Forward curve is Out of the Money (OTM)
d. None of these

63. Tata Steel ltd. (Importer) is buying $ 100 Mn in INR with Citi Bank. USD/INR spot trading at Rs 67/67.10 with Tom Spot as 4/4.5. Which of the following would be net rate (assuming no brokerage)

a. 67.0550
b. 67.0600
c. 67.0575
d. Any one of them

64. MGM Ltd issued bonds having a par value of Rs 1000, maturity value of Rs 1200 and a coupon rate of 17%. If the current market price of the bond is Rs 1114 and the YTM of the bond by approximation method is 16.4%, what is the approx. maturity period of the bond?

a. 6 years
b. 5.5 years
c. 5 years
d. **4.4 years**

65. Which of the following is not a part of the money market?

a. Call money market
b. Treasury bills market
c. Commercial paper market
d. Stock market

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 you understand by Hybrid structure of an Ideal Treasury?

Ans.: One of the strategies towards an ideal treasury is the implementation of a hybrid structure that takes the best of centralized and decentralized treasury structures and allows tailoring to the specific needs of the organization. Hybrid approach can provide full cash visibility across an entire operation, spanning geographic locations, time zones and offices, while Providing local and regional support. The extent to which each of these functions becomes the focus depends entirely on factors like the size of a business, its business model and the expected role of the treasury department within that business.

Hybrid structure is like taking the best out other strategies in order to eliminate the disadvantages and mix it in such way that the treasury system of the organisation works without any flaws and provides the expected results. It may help help businesses to reach the ultimate goal of maximizing the sources and uses of funds.

2. Write a short note on efficiency ratios?

Ans.: The theory of buying low and selling high makes investing seem all too easy. For many, it is difficult to truly know when prices are cheap or expensive. In theory, the value of an investment is equal to the sum of its earnings or cash flows, which are discounted by some expected rate of return. From this general theory, many different short-hand methods have evolved to assist investors in making a quick determination as to a company's investment value using valuation ratios.

In many instances, a low ratio is considered a sign of an undervalued security, while a high ratio is considered an overvalued security. However, one major problem is that ratios typically do not take into account the future expected growth of the company itself. It is the prospects for the company's future growth combined with these estimated valuations that help you reach reasonable conclusions.

3. Perfact Engineering ltd has received an export order for US dollar 10 million for export of machinery to a private limited company in Ivory Coast. While there is a good report on the buyer up to US dollar 6 million, there is uncertainty on the foreign exchange repatriability of the currency of the country. The profit margin is very high and hence the company does not want to miss the opportunity. Suggest alternatives for reducing the risk.

Ans. The company based on the exact circumstances may use following alternatives for reducing the risk:

- Seek ECGC cover for the exports which will cover major portion of the exports [exact percentage depending on the details].
- Export under LC which should be got confirmed by a bank in India or in an acceptable third country
- See whether there is any developmental credit from say World Bank etc and if yes, try to route the export through that.
- If there is any line of credit from our own Exim Bank and if this export is eligible under that, explore that.
- Insist for advance payment, though may not be feasible [atleast upto major portion of the export order]
- Forfeiting the bills [i.e. without recourse]

4. Why do we need capital market?

Ans .: Capital market plays an extremely important role in promoting and sustaining the growth of an economy.

- It is an important and efficient conduit to channel and mobilize funds to enterprises, both private and government.
- It provides an effective source of investment in the economy.
- It plays a critical role in mobilizing savings for investment in productive assets, with a view to enhancing a country‘s long-term growth prospects, and thus acts as a major catalyst in transforming the economy into a more efficient, innovative and competitive marketplace within the global arena.
- A well-functioning capital market tends to improve information quality as it plays a major role in encouraging the adoption of stronger corporate governance principles, thus supporting a trading environment, which is founded on integrity.
- Capital market has played a crucial role in supporting periods of technological progress and economic development throughout history.

- Capital markets make it possible for companies to give shares to their employees via ESOPs
- Capital markets provide a currency for acquisitions via share swaps.
- Capital markets provide an excellent route for disinvestments to take place.
- Venture Capital and Private Equity funds investing in unlisted companies get an exit option when the company gets listed on the capital markets

5. Explain Floating rate bond?

Ans.: Instead of a pre-determined rate at which coupons are paid, it is possible to structure bonds, where the rate of interest is re-set periodically, based on a benchmark rate. Such bonds whose coupon rate is not fixed, but reset with reference to a benchmark rate, are called floating rate bonds. Some floating rate bonds also have caps and floors, which represent the upper and lower limits within which the floating rates can vary. A ceiling or a cap represents the maximum interest that the borrower will pay, should the benchmark rate move above such a level.
Most corporate bonds linked to the call rates, have such a ceiling to cap the interest obligation of the borrower, in the event of the benchmark call rates rising very steeply. Floating rate bonds, whose coupon rates are bound by both a cap and floor, are called as *range notes*, because the coupon rates vary within a certain range. The other names, by which floating rate bonds are known, are variable rate bonds and adjustable rate bonds.
These terms are generally used in the case of bonds whose coupon rates are reset at longer time intervals of a year and above. These bonds are common in the housing loan markets. In the developed markets, there are floating rate bonds, whose coupon rates move in the direction opposite to the direction of the benchmark rates. Such bonds are called inverse floaters.

6. Write a short note on “STRIPS” ?

Ans.: STRIPS is the acronym for Separate Trading of Registered Interest and Principal Securities. Stripping is the process of separating a standard coupon-bearing bond into its individual coupon and principal components. For example, a 5 year coupon bearing bond can be stripped into 10 coupons and one principal instrument, all of which thenceforth would become zero coupon bonds.
In an official STRIPS market for the Government securities, these stripped securities i.e., the newly created zero coupon bonds remain the direct obligations of the Government and are registered in the books of the agent meant for this purpose. Thus the mechanics of stripping neither impacts the direct cost of borrowing nor change the timing or quantum of the underlying cash flows; stripping only facilitates transferring the right to ownership of individual cash flows.
When STRIPS made a beginning in the early seventies in the US, the initial motivation came in the form of tax benefits. The process of stripping facilitated the holders of a US Treasury Bond to separate the component pieces, then to sell the principal component which by then became a zero coupon bond and then claim capital loss on the transaction. Furthermore, while the holders of the coupon STRIPS continued to enjoy the income stream, tax was paid not on the accrued income but only when these coupon STRIPS matured or were sold.
Such market behaviour, apart from resulting in significant revenue losses, also led to deferment of tax. The anomaly was ultimately rectified through the Tax Equity and Fiscal Responsibility Act (TEFRA) of 1982, which required the holders of zero coupon bonds to accrue a portion of the discount towards par each year.

7. Discuss the FIMMDA guidelines in brief?

Ans.: FIMMDA has formulated and prescribed certain set of regulations which are discussed below :

General Principals:

- It is expected that all the Principals and Brokers should maintain the highest standards of conduct so as to enhance the reputation of these markets.
- All participants must ensure that any individual who commits on behalf of the institution is acting within approved authorities.
- All institutions must stand by the commitment made by an individual acting on their behalf, the principle being _My Word is my Bond‘.
- Institutions must ensure that the individuals acting on their behalf are fully trained and completely aware of the rules and regulations, conventions, practices and the markets in which they deal.
- All individuals must comply with the rules and regulations governing the market and keep up-to-date with changes that may happen from time to time.
- Trades done outside the NDS, between institutions who are members of the NDS should be entered in the NDS within a period of 15 minutes from the time of conclusion of the trade.
- The role of a broker is to bring together the counterparties for a fee. When brokers act as intermediaries, they are not expected to act as principals or in a discretionary capacity, even momentarily. Where the broking company is acting on its own account, it is expected to declare that it is dealing as a principal before negotiating the trade.
- Brokers and principals are expected to maintain confidentiality of the parties involved in the transactions.
- Settlement of the deals in Fixed Income, Money Market and Rupee Derivatives will be subject to market conventions laid down by FIMMDA, irrespective of the counterparty being a member of FIMMDA.

Section C

Number of questions: 2

Marks: 10

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

1. Consumer Bank has $20 million in cash and a $180 million loan portfolio. The assets are funded with demand deposits of $18 million, a $162 million CD and $20 million in equity. The loan portfolio has a maturity of 2 years, earns interest at the annual rate of 7 percent, and is amortized monthly. The bank pays 7 percent annual interest on the CD, but the interest will not be paid until the CD matures at the end of 2 years.

   a. What is the maturity gap for Consumer Bank?

   Ans. :

   M_A = [0*$20 + 2*$180]/$200 = 1.80 years

   M_L = [0*$18 + 2*$162]/$180 = 1.80 years

   MGAP = 1.80 – 1.80 = 0 years.

   b. Is Consumer Bank immunized or protected against changes in interest rates? Why or why not?

   Ans.:

   It is tempting to conclude that the bank is immunized because the maturity gap is zero. However, the cash flow stream for the loan and the cash flow stream for the CD are different because the loan amortizes monthly and the CD pays annual interest on the CD. Thus any change in interest rates will affect the earning power of the loan more than the interest cost of the CD.

   c. Does Consumer Bank face interest rate risk? That is, if market interest rates increase or decrease 1 percent, what happens to the value of the equity?

   Ans.:

   The bank does face interest rate risk. If market rates increase 1 percent, the value of the cash and demand deposits does not change. However, the value of the loan will decrease to $178.19, and the value of the CD will fall to $159.01. Thus the value of the equity will be ($178.19 + $20 - $18 - $159.01) = $21.18. In this case the increase in interest rates causes the market value of equity to increase because of the reinvestment opportunities on the loan payments.

If market rates decrease 1 percent, the value of the loan increases to $181.84, and the value of the CD increases to $165.07. Thus the value of the equity decreases to $18.77.

d. How can a decrease in interest rates create interest rate risk?

Ans.:

The amortized loan payments would be reinvested at lower rates. Thus even though interest rates have decreased the different cash flow patterns of the loan and the CD have caused interest rate risk.

2. Bookhok Ltd is a 20 years old trading company in variety of commodities from capital goods to electronic gadgets. Its annual turnover is in the range of Rs 1500 crores with CAGR of over 21%. Its business model is mainly importing from developed countries like Italy & UK and exporting to South East Asian & African countries. Since Bookhok is cash rich, it imports generally on cash basis and exports on usance basis. These terms make the exports very attractive to the prospective buyers. Bookhok is able to load enough margin because of the terms.
You have joined the company as the treasurer and the management has asked you to identify the risks if any in this model and suggest protective steps. Describe the same in generic terms.
Answer: the discussions should include the following:
   - The credit risk is relatively higher due to profile of buyers. Bookhok should take care of this by taking ECGC policy or forfeiting the larger value bills on long terms, obtain prior credit report on any new buyer [from agencies like D & B] etc.
   - Though the company is not borrowing, there may be opportunity losses. E.g. it could invest in India where returns could be much higher and use borrowed funds at lower overseas costs by taking advantage of arbitrage. Here the candidate should display knowledge of interest and exchange rate arbitration.
   - In view of large size and cash rich status, Bookhok should take advantage of facilities offered by banks. Concessional rate is available for export credit which will be much lower than the investment return in India. Banks can organize buyers' credit if Bookhok decides to import on deferred terms, which will be beneficial on interest rate terms.
   - Bookhok is likely to have currency risk on both its imports and exports. Since it is a trading firm, the net exposure may be nearly equal to the margin. But if the currency of imports and exports are different [which is likely to be the case], this netting advantage does not work. It is necessary to look at the exchange risk on both the imports and exports separately. That will also give scope for taking advantage of exchange rate movement currency wise.