

Roll No.....

Membership No.....



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

Test 1

19th Nov, 2016

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)

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Date : 19th Nov, 2016

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CERTIFICATION COURSE ON FOREX AND TREASURY MANAGEMENT

Paper -1

SUGGESTED ANSWERS–NOVEMBER, 2016 EXAM

| 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 | |

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Disclaimer

The suggested answers contained in this publication constitute ideal answers for various questions. They do not constitute the basis for the evaluation of the candidate's answers in FXTM examinations. These suggested answers are arranged by the Banking, Financial Services and Insurance Committee with a view to assist the candidates pursuing the FXTM Course for their preparation for the Technical Examinations. While due care has been taken in preparation of the answers, if any errors & omission is noticed, the same may be brought to the notice of the Secretary, Banking, Financial Services and Insurance Committee . The Council and Banking, Financial Services and Insurance Committee of the Institute are not responsible in any way for correctness or otherwise of the answers published hereinunder.

Section A (Objective-Marks-65)

1 marks each

1. Development of SWIFT corporate access
 - a. Is an example of technological advancement that helps the corporates to manage their inventory control by having real time connectivity with their suppliers
 - b. Enables corporates to communicate directly with the banks using the SWIFT channels
 - c. Is the sole cause for the recent fraud in Bangladesh resulting in loss of USD 81 million
 - d. Has resulted in substantial increase in international trade

2. Following is the clearing house for risk and has the responsibility for managing the treasury risks taken in all areas of the bank on behalf of customers and on its own
 - a. Front office
 - b. Mid office
 - c. Back office
 - d. Reporting office

3. The deficit or surplus in the nostro account is managed by treasury as under
 - a. Front office accesses the nostro account to find the balance and either buys or sells the currency to meet the shortfall or surplus in the nostro account
 - b. Back office accesses the nostro account to find the balance and either buys or sells the currency to meet the shortfall or surplus in the nostro account
 - c. Back office informs the funds position to the front office for it to take necessary action of buying or selling the currency to manage the nostro account
 - d. The nostro correspondent informs the balance to the bank and also places the surplus in call deposit to earn interest or allows overdraft if there is shortfall

4. Inability of a company to obtain further capital due to competitive pressure on price and market share is classified as
 - a. Operational risk
 - b. Capital risk
 - c. Market risk
 - d. Business risk

5. Derivatives are basically
 - a. Instruments for gambling in shares
 - b. Financial products for hedging risk
 - c. Considered as negotiable instruments under NI Act
 - d. Weapons of mass destruction

6. A primary dealer [PD]
 - a. Is a broker
 - b. Manages trading in quoted shares on behalf of clients
 - c. Is a sort of merchant banker for Government
 - d. Is a SEBI approved market maker for fixed income securities

7. Which of the following marketable securities is the obligation of a commercial bank?
 - a. Commercial paper
 - b. Negotiable certificate of deposit
 - c. Repurchase agreement
 - d. T-bills

8. The greater the beta, following will be characteristic of the security involved
 - a. More the unavoidable risk
 - b. More the avoidable risk
 - c. Less the unavoidable risk
 - d. Less the avoidable risk

9. The flow of funds i.e. sale or purchase of investment remittances happen in the international treasury on account of various transactions. In that context, which of the following is a correct statement from bank's view point?
 - a. Demand for and supply of foreign currency arises only on account of exporters and importers
 - b. Foreign currency borrowings by the bank is classified as a merchant transaction
 - c. Disbursing or repayment of PCFC results in movement of FC funds
 - d. Establishing an import LC results in movement of FC funds

10. An FCNR (B) loan granted by a bank
 - a. Does not affect the treasury's funds position
 - b. Is a loan sanctioned against the security of the FCNR deposits
 - c. Is a loan sanctioned to the non-resident depositors
 - d. Is out of the FC resources, one of which is the FCNR deposits

11. In the context of Continuous Linked Settlement [CLS], the following statement is not true
 - a. Both counterparties must be CLS-enabled
 - b. It was founded to eliminate settlement risk
 - c. It uses payment versus payment system
 - d. It was founded to eliminate pre-settlement risk

12. In the development of national payment system, a sub-committee of the Central Board of the Reserve Bank of India called BPSS is the highest policy making body on payment systems in the country. The expansion of that abbreviation is
 - a. Board for Payment and Settlement Systems
 - b. The Board for Regulation and Supervision of Payment and Settlement Systems
 - c. The Board for Registration and Supervision of Payment and Settlement Systems
 - d. The Board for Supervision of Payment and Settlement Systems

13. Among the electronic remittance facilities available in India
 - a. NEFT is for individuals and RTGS is for corporates
 - b. RTGS is on a real time basis
 - c. There is no bunching in both
 - d. NEFT is most used by treasurers

14. Banks across the world maintain accounts with each other selectively. In that context, following statement is true
- If Bank A maintains nostro account with Bank B, it means Bank B is maintaining Vostro account with Bank A
 - Vostro account with a bank in India is maintained only in Indian rupee
 - As per RBI rules, a bank in India can maintain only one nostro account per any foreign currency
 - SBI Mumbai cannot maintain nostro account with its own branch in NY
15. Banks have integrated their treasury for the following reason
- Reduced travel and communication costs
 - Most other banks have integrated
 - To improve portfolio profitability
 - To avoid inter-treasury risk
16. In the context of scope of activities of treasury of a bank, following is a true statement
- Proprietary trading is prohibited in India
 - Arbitrage is an important source of profit
 - Role of treasury in Indian banking system is limited to maintaining SLR & CRR
 - Volatility of interest rate is not a reason for increased profit
17. Which of the following statements best describes the concept of stop loss limit as applicable to treasury front office?
- It is the limit beyond which losses should not be incurred by the dealers
 - It triggers specific defined action if the loss exceeds a threshold amount
 - When price volatility is high, increased limit to be made available
 - It is the limit through which dealers are controlled by the management
18. The impact of higher usage of technology in banking and treasury activities is visible in the following
- The significance of 'float' will proportionately increase
 - Lockbox services of the banks become very relevant
 - Operational risk management assumes higher importance
 - The number of dealers will substantially reduce
19. Where there is a suspicion of improper conduct on the part of a market participant, what should banks do?
- Bring the matter to notice of FEDAI
 - Inform RBI immediately
 - Complain to Bank for International Settlements
 - Confront that market participant
20. Which of the following statement is true while referring to yield on G-Sec
- The net yield increases with increase in tax rate
 - Real yield will change with market price fluctuation
 - Nominal yield is the true measure of return on investment
 - Coupon rate can vary with security

21. Which of the following statement is true with reference to FIMMDA [Fixed Income Money Market and Derivatives Association of India]
- FIMMDA is the regulator for money market participants
 - Primary Dealers cannot be members of FIMMDA
 - FIMMDA functions as an arbitrator for any disputes between members
 - FIMMDA does not develop standardized sets of documentation
22. Mark which option below is incorrect in reference to The Clearing Corporation of India Ltd [CCIL]
- It provides guaranteed settlement for Rupee interest rate derivatives and cross currency transactions through the CLS Bank
 - It provides guaranteed clearing and settlement functions for transactions in Money, G-Secs, Foreign Exchange and Derivative markets
 - Its fully owned subsidiary, Clearcorp Dealing Systems Limited has introduced various platforms for electronic execution of deals in various market segment
 - As per its present equity shareholding pattern, its shares are held majorly by banks and not by RBI
23. The Clearing Corporation of India Ltd [CCIL] has a netting scheme called novation and its features does not include
- Novation takes effect at EOD and not from the moment a trade is accepted by CCIL for settlement
 - The bilateral relationship between the two participants is substituted with bilateral contracts between each participant and CCIL
 - CCIL interposes as Central Counter Party upon acceptance of the trades
 - The net position of a member bank is computed by a multilateral netting of all accepted trades
24. Which of the following statement truly reflects the characteristic of Treasury bill?
- It is in the form of bill of exchange issued at discount by Government of India
 - Treasury bills are instruments of short term borrowings by Government of India
 - Treasury bills represent borrowings by RBI issued in the form of promissory notes
 - The interest rate carried by Treasury bills is an indicator of short term market rate
25. 8% Government of India security is quoted at RS 120. What is the current yield on the security?
- 12%
 - 9.6%
 - 6.7%
 - 8%
26. In the following sentence relating to repo & reverse repo rate applicability, which option correctly fills the blank spaces?
- _____ rate is the discount rate at which _____ borrow/s from _____.
- Repo, banks, RBI
 - Reverse repo, banks, RBI
 - Repo, RBI, banks
 - Reverse repo, banks, other banks

27. Various schemes are in vogue to influence the liquidity in the money market. Choose the correct statement out of the following in that context:
- Liquidity is managed through OMO in the form of outright purchase of Government securities
 - Liquidity Adjustment Facility (LAF) consists of Repo and Reverse repo auctions of G Sec
 - Market Stabilisation Scheme (MSS) supplements LAF to prevent the liquidity impact of reserve accumulation
 - MSS is an arrangement between Government of India and the various regulators
28. Following is one of the features of Certificate of Deposit [CD] issued in India
- CDs are issued by large corporates to meet their short term funds requirement
 - CDs are issued in the form of usance promissory note
 - CDs have the same legal features as the term deposits of commercial banks
 - Issuing CDs in India has been discontinued recently
29. Choose the correct option out of the following
- Factoring is an alternative to export credit
 - Factoring involves extending receivable finance and other collection services
 - Factoring is allowed in India only for domestic sales to prevent non-recovery of export receivables
 - Factoring facility is extended only by banks in India
30. Forfaiting as a credit facility
- Is not allowed in India
 - Is with recourse basis
 - Is extended for long term exports
 - Is available for domestic sales only
31. An increase in cash reserve ratio will cause yield curve to
- Shift downward
 - Remain unchanged
 - Become steeper
 - Become flatter
32. A debenture of face value of As. 100 carries a coupon of 15%. If the current yield is 12.5%. What is the current market price?
- Rs.100
 - Rs.120
 - Rs.150
 - Rs.125
33. A debenture of Rs.100 carrying 15% coupon rate is quoted in the market at Rs.135/-. The current yield on this debenture will be
- 13.5%
 - 15%
 - 11.11%
 - 10%

34. The regulator for the foreign exchange activities of commercial banks is
- IBA
 - SEBI
 - FEDAI
 - RBI
35. Trilemma in international economics states that it is impossible to have all three of the following at the same time. Find out the odd one.
- Fixed foreign exchange rate
 - Current account convertibility
 - Free capital movement
 - Independent monetary policy
36. Which of the following statement is true in relation to exchange rates?
- A currency whose interest rate is lower will be at premium against another currency with higher interest rate
 - A currency whose unit price is higher compared to another [e.g. INR vs JPY] is at premium against the latter
 - There are no currencies having a fixed parity with each other
 - If a country decides to devalue its currency, it has to first obtain consent of IMF and then of the country against whose currency, devaluation will be done
37. What is spread in relation to exchange rate quotes?
- It is the margin loaded on the base rate, representing the profit
 - It is the difference between bid price and ask price
 - It is the difference between spot & forward rate
 - Spread represents the difference in interbank and retail forex market
38. JPY/USD spot and 90 days forward are 109.38 & 109.50. What is the annualised forward margin as a rate?
- Forward premium of 0.44%
 - Forward discount of 0.44%
 - Forward premium of 0.11%
 - Forward discount of 0.11%
39. In a foreign exchange forward contract, the following is fixed [pick the incorrect one]
- Exchange rate
 - Amount
 - Date of delivery
 - Time of delivery
40. An importer has booked a forward contract with the bank for the ensuing import with date of delivery as November 15th. The bank is aware of the credit risk arising out of any pre-settlement uncertainty. However, import document arrives on October 28th itself.
- The bank is happy that the transaction is closed before due date
 - The bank will ask the importer to wait till the date of delivery to retire the document
 - The bank will levy swap difference if any due to early delivery
 - Customer has an option of taking delivery during one month

41. SBI has a credit balance of USD one million in its nostro account with Citi Bank NY on 31st December. This means
- SBI has an overbought position at the end of that day
 - SBI needs to sell USD one million urgently to clear the excess balance
 - SBI's cash position on 31st December is USD one million
 - SBI's cash position on 31st December is USD one million or more
42. Negotiated dealing system (NDS), which has become operational since February 2002, enables on-line dealing and dissemination of trade information relating to instruments in money, government securities and foreign exchange markets. In this context, which of the following statement is untrue?
- Membership in NDS is open to all institutions which are members of INFINET
 - Membership in NDS is open to all institutions which are members of INFINET and are maintaining SGL Account with RBI
 - Insurance company can be a member of NDS
 - Mutual Fund can be a member of NDS
43. What is a straight through processing in financial transactions?
- A mechanism that automates the end-to-end processing of transactions of the financial instruments
 - It involves multiple systems to process all elements of workflows involved in the financial transaction
 - It is a process which is approved by the regulator, hence assuring a clear laid down policy
 - It necessarily involves a central counter party for settlement to ensure straight through processing
44. External borrowing in the form of ECB and trade credit differ in the following
- Bank in India can extend a guarantee in case of trade credit and not ECB
 - Both trade credit & ECB proceeds cannot be parked outside India
 - The maximum tenure permitted for trade credit is higher than that for ECB
 - Anyone can be the creditor in both the cases
45. The framework for raising loans through ECB [External Commercial Borrowings] comprises three tracks. Point out the one which is not.
- Track I: Medium term foreign currency denominated ECB with minimum average maturity of 3/5 years
 - Track II: Long term foreign currency denominated ECB with minimum average maturity of 10 years
 - Track III: Indian Rupee denominated ECB with minimum average maturity of 3/5 years
 - Track IV: Indian Rupee denominated ECB with minimum average maturity of 10 years

46. As per RBI guidelines governing raising loans as trade credit following is true
- ADs are permitted to approve trade credit for import of non-capital and capital goods up to USD 20 million or equivalent per import transaction
 - ADs are permitted to approve trade credit for import of non-capital and capital goods up to USD 20 million or equivalent per annum per importer
 - RBI approval is required to avail trade credit for import of non-capital goods up to USD 20 million or equivalent per import transaction
 - ADs are permitted to approve buyers' credit for import of non-capital and capital goods up to USD 20 million or equivalent per import transaction
47. Which of the following statement is true in case of trade credit?
- Trade credit is collective of buyers' credit & suppliers' credit
 - In buyers' & suppliers' credit, buyer & seller respectively extend credit
 - Movement of goods or services is not a must under trade credit
 - Trade credit is an indication of the trade surplus among the traders
48. Contingency plans for computerised operations should include appropriate back up arrangements. Which of the following arrangements would be considered too vendor dependent when vital operations require almost immediate availability of computer resources?
- A 'hot site' arrangement
 - A 'cold site' arrangement
 - A 'hot and cold site' combination arrangement
 - Using excess capacity at another data centre within the organisation
49. Which is not a recognised form of business continuity planning?
- Contingency planning
 - Building planning
 - Scenario planning
 - Financial planning
50. Future value of investment of INR 10000 at the end of 2nd year at a simple annual interest rate of 4.5% is INR
- 10000
 - 10450
 - 10900
 - 10920
51. In case there are too many outliers in the data set, the most representative average value is
- Mean
 - SD
 - Mode
 - Median
52. Parametric test, unlike the non-parametric tests, make certain assumptions about
- The population size
 - The underlying distribution
 - The sample size
 - Ratio of sample to population

53. Stock options give the buyer the right but not the obligation
- To buy a stock also called call option
 - To sell a stock also called put option
 - To buy or sell a stock on agreed terms
 - To buy or sell a stock on terms to be agreed
54. By taking a level of significance of 5% it is the same as saying
- We are 5% confident the results have not occurred by chance
 - We are 95% confident that the results have not occurred by chance
 - We are 95% confident that the results have occurred by chance
 - We are uncertain about the results in 5% to 95% situations
55. Two types of errors associated with hypothesis testing are Type I and Type II. Type II error is committed when
- We reject the null hypothesis whilst the alternative hypothesis is true
 - We reject a null hypothesis when it is true
 - There are no such errors in hypothesis testing
 - We accept a null hypothesis when it is not true
56. The first step in time-series analysis is to
- Perform preliminary regression calculations
 - Calculate a moving average
 - Plot the data on a graph
 - Identify relevant correlated variables
57. Time-series analysis is based on the assumption that
- Random error terms are normally distributed
 - There are dependable correlations between the variable to be forecast and other independent variables
 - Past patterns in the variable to be forecast will continue unchanged into the future
 - The data do not exhibit a trend
58. In analysing the market movement of variables, technical analysis is frequently used. Which one of the following, it does not assume?
- The market discounts everything
 - Price moves in trends
 - History tends to repeat itself
 - Each day is unique for movement
59. If a bond is trading at discount or below its face value, then
- Yield to call is greater than yield to maturity
 - Yield to call is less than yield to maturity
 - Yield to call is same as yield to maturity
 - Yield to call cannot be compared with yield to maturity

60. Which of the following is a yield curve?
- It is a line that plots interest rates, at a set point in time, of bonds with varying credit quality but with same maturity dates
 - It is a line that plots interest rates, at different points of time, of bonds having equal credit quality but with same maturity dates
 - It is a line that plots interest rates, at a set point in time, of bonds having equal credit quality but differing maturity dates
 - It is a line that plots interest rates, at a set point in time, of bonds having equal credit quality but varying maturity dates
61. When a bond moves closer to its maturity date, how does its price move?
- Its price will decline over time towards its par value
 - If it is at a premium, the price will decline over time towards its par value
 - If it is quoted at discount, the price will decline over time towards its par value
 - Its price will increase over time towards its par value
62. What is Value at risk [VaR]?
- VaR measures the amount of loss over a specified time horizon with a given confidence level
 - VaR measures the maximum amount of loss over a specified time horizon with a given confidence level
 - VaR measures the minimum amount of loss over a specified time horizon with a given confidence level
 - VaR measures the maximum amount of loss over a specified time horizon for different confidence levels
63. When does a positive GAP arise in the context of ALM?
- When $RSA > RSL$
 - When $RSA < RSL$
 - When $RSA \leq RSL$
 - When the GAP is expanding with time
64. What is a modified duration?
- Modified duration is a measure of shift in interest rates for a unit change in prices of bonds
 - Modified duration represents skewness of duration
 - Modified duration is a measure of price sensitivity of a bond to interest rate movements
 - Modified duration is an indication of interest income
65. In the context of analysis of financial statements, which of the following is a true statement?
- A higher ratio is generally considered desirable if other factors lead to believe that a company has bright future prospects
 - It is the average of price to sales and P/E ratio
 - It does not take into account many accounting rules that can hide a company's earnings while also focusing on its ability to be profitable
 - It is arrived at by dividing current price by cash flow from operations per share

Answer (objective type 1-65)

1. B 2.A 3.C 4.D 5.B 6.C 7.B 8.A 9.C 10.D
11. D 12.B 13.B 14.B 15.C 16.B 17.B 18.C 19.A 20.D
21. C 22.A 23.A 24.B 25.C 26.A 27.B 28.B 29.B 30.C
31. A 32.B 33.C 34.D 35.B 36.A 37.B 38.A 39.D 40.C
41. D 42.A 43.A 44.A 45.D 46.A 47.A 48.B 49.B 50.D
51. D 52.B 43.C 54.B 55.D 56.C 57.C 58.D 59.A 60.C
61. B 62.B 63.A 64.C 65.D

Section B (Answer any five Question)

Marks-25

- 1) Explain what is yield to maturity and how it compares with other types of yield on a bond?
- 2) Briefly summarise the fundamental factors that affect the exchange rate of a currency, in not more than 10 lines
- 3) Describe [in not exceeding 10 lines] the various steps taken by SEBI to strengthen the regulatory aspects of commodity market, after becoming the new regulator for commodity market.
- 4) List out the various limits a treasury dealer is expected to adhere to and briefly explain the meaning in two to three sentences each.
- 5) Explain the basic features of a Commercial Paper, as a money market instrument.
- 6) Elaborate the difference between current and capital account convertibility with INR examples.
- 7) Briefly describe the scope of functioning of 'New Development Bank' and its recent event in India.

Answer:-

Short Answer 1: This is the yield which the holder gets per annum if the bond is held until maturity. It is the same as current yield if the bond is purchased at par. Redemption yield is equal to the current yield +/- average annual capital gain or loss. It takes into account the price paid for the bond, the length of time to maturity and the coupon rate of the bond. It is also called redemption yield. Coupon rate is the nominal rate at which a bond carries interest.

If the price of the bond is low i.e. it is quoted at discount, instead of booking a loss by selling, the holder may retain the bond till maturity, subject of course to the underlying credit risk. Then YTM becomes relevant.

Short Answer 2: Exchange rate is defined as the rate at which one country's currency is converted into currency of another country. The following broadly summarises the factors affecting the exchange rate

- a) Inflation rate. A country with lower inflation rate will see an appreciation of its currency i.e. its currency commanding a forward premium
- b) Interest rate. Same as above
- c) Country's current account & balance of payment. Indicate country's external strength & hence of the currency
- d) Government debt. Higher debt reflects poorly on the economic strength & hence currency exchange rate
- e) Political stability & performance. Add to the strength of the currency
- f) Recession. Could result in reduced interest rate, decreased chances to attract capital flows and where it is a dominant factor, weaker the currency
- g) Speculation. Rumours, speculators, active NDF market on the currency, stability or otherwise of economic & Central Bank policies all add uncertainty and hence volatility of the currency.

Short Answer 3: Various steps taken by SEBI to strengthen the regulatory oversight on commodity market are:

1. Strengthening of risk management
2. Few of the important steps and their impact are mentioned as under:
 - a. Position limits in the agri commodities were reduced to align with the existing liquidity and to curb excessive speculative interest and consequential breach of market integrity.
 - b. Daily Circuit filter limits were also reduced in the agri commodities from 6% to 4% to reduce volatility.
3. A new risk management system was put in place on September 1, 2016 introducing new concepts/ tools to deal with the risk prevalent in the commodities markets. Some important features of the new system are as under:
 - a. Enhancement in initial margins to have better risk coverage.
 - b. Concentration margins on big positions
 - c. Tools for handling default such as liquidation in normal market, auction of positions, voluntary tear-up and partial tear up etc.
4. To bring the risk management system at par with securities market, SEBI mandated forming of clearing corporations by the exchanges
5. The markets were integrated with the Integrated Surveillance System of SEBI which is being used for the securities market.

6. To improve the standard of warehouses and develop the warehousing sector elaborate guidelines for 'minimum standards' and 'governance' have been laid down. Key features of the norms for WSPs (Warehouse Service Provider) are as follows:
 - a. Minimum net worth requirement of Rs. 25 crores for multi commodity WSPs.
 - b. Storage value of goods in warehouse not to exceed 33 times of the net worth of WSP.
 - c. Fit and proper criteria.
 - d. Compulsory accreditation of assayers.
7. Online registration of brokers
8. Strengthening of delivery infrastructure
9. Grievance redressal mechanism
10. Capacity building measures including certifications

Short Answer 4: Daylight limit. Also called as intra-day limit is a ceiling on the exposure [i.e. position] a dealer can have against any specific variable say each currency during the dealing day before the closure of the day. The dealer is expected to square this and bring it within the allowed limit before the day closes. Naturally, daylight limit is higher than overnight limit.

Overnight limit. On the position, which a bank carries from one day to another. Against each currency or stock etc. Long ago, RBI expected banks to have 'square' or 'near square' position at the end of the day. Now banks decide the max limit with board approval. Carries 100% risk weightage.

GAP limit. Individual GAP and aggregate GAP limit. When same amount of a foreign currency is bought and sold for different value dates, there is no net position created but it creates a gap or a mismatch. Individual gap limit determines the max mismatch for a currency over a standard period usually a calendar month. Aggregate gap limit is aggregate of gaps across all months for a currency. Total aggregate limit is its total for all currencies.

Deal size limit. Self explanatory. The max value of any individual deal, a dealer can undertake. Though the deal for a higher amount would still result position within the limit, this puts a ceiling on individual deal size.

Counterparty limit. The total exposure against each counterparty i.e. bank with which this dealer will deal. This is purely a credit risk control limit.

Stop loss limit. As a safety valve. The dealer is required to cut the position without hoping the market to move in favourable direction. Must take place if the loss exceeds the threshold.

VaR. Value at risk limit. On the entire portfolio, the max expected loss for a given level of confidence.

Apart from mentioning the limit, description showing the understanding of that limit should be rewarded more.

Short Answer 5:

- Unsecured promissory note
- Fixed maturity from seven days to one year
- Issued by highly rated corporate borrowers & FIs

- Usually sold at a discount and redeemed at par
- Traded in the market
- The cost of raising funds through this route should be lower than the bank WC limit, as otherwise, the corporate will not find it attractive.

Short Answer 6: FEMA defines capital and current account transactions. Capital account transaction alters the assets, liabilities, contingent liabilities outside India of persons in India or assets & liabilities in India of persons outside India. Others including imports & exports of goods & services are current account transactions. FEMA also mentions a few specific cases. A currency is convertible either on capital or current account depending on whether it can be converted into FC for transactions which are capital or current account transactions. INR is convertible on current account transactions since August 2014, which means a resident in India can seek his or her INR balance to be converted into say USD for purposes which are classified as current account transactions such as travel abroad, medical treatment abroad etc. It may be either at local bank's counters upto reasonable ceiling [which takes care of most transactions] or by referring to RBI. INR is convertible on capital account partially. E.g. individuals can remit upto USD 250,000 per FY, MFs can upto USD 7 billion, companies can upto 4 times their networth etc.

What is important in the answer is not mere knowledge display of convertibility but examples showing the application of that knowledge. Marks to be rewarded on this.

Short Answer 7: The New Development Bank [NDB]

- Objective of funding infrastructure projects in the developing countries and meet the aspirations of millions through sustainable development.
- Will listen, learn, collaborate and innovate.
- To establish global, regional and local partnership with the new as well as established Multilateral Development Banks [MDBs] and with market participants.
- Current financing and investment patterns are inadequate in meeting investment needs. Private international capital flows are not only volatile they are also insufficient in volume and maturity to fund sustainable development, which typically requires long-term investment. While the annual resource commitment from MDBs has gone up from USD 45 billion to over USD 100 billion over a 10 year period, it is still insufficient to meet the infrastructure development investment of over USD 1 trillion a year. There is therefore a need for MDBs to reinvent themselves and introduce innovative instruments.
- NDB vision is not restricted to funding infrastructure requirements but envisages building a knowledge sharing platform among the developing countries and promote sustainable development.
- NDB is key milestone of the cooperation among emerging economies and developing countries.
- In October 2016, in the coastal Indian state of Goa, BRICS leaders gathered for their annual summit amid high hopes that the NDB could provide new momentum of growth and cooperation between BRICS countries.

Section C (case studies, answer any one)

Marks-10

- 1) On 4th February 2016, USD 81 million was stolen from Bangladesh Bank's account at the New York Fed through fraudulent transfer orders sent on the SWIFT system. This was a headline news because it was always believed that SWIFT is a safe system. You are appointed as a chartered accountant expert to quickly suggest the next specific steps so that further forensic audit could be taken up. What immediate steps you suggest to prevent further damage and to show possible causes. [*Generic answer like 'software system should be reviewed' is not expected.*]

- 2) You have been appointed as the chief of treasury of a well-known software exporting company with thousands of crores of cash surplus. While the company has been keeping the funds mainly in bank deposits, it is conservative in not looking at inorganic growth. Net of taxes, the present yield is around 5.5% pa. During your first meeting with the CEO, you were asked to come out with a plan to increase this yield without compromising on the conservative risk profile of the company. What alternatives you plan to achieve this?

Answer:-

CASE Answer 1:-

This is the real story of loss at the Central Bank of that country. While there is no perfect answer to this situation, based on what actually happened, following could be quick suggestive measures:

1. Installing firewalls on its networks to block malicious traffic
2. The hackers could manipulate the Alliance Access server software, which banks use to interface with SWIFT's messaging platform, in a bid to cover up fraudulent transfers that had been previously ordered. Verify its security system
3. Limiting access to certain systems is essential for treasury
4. The onus is on treasury to make sure third party vendors don't leave the systems vulnerable no matter what they brought in to install e.g. could be SWIFT
5. For treasury to have a proper security framework, it needs to be involved in and aware of what IT is doing to secure the exterior and the interior
6. The technicians may connect the RTGS system to SWIFT computers which will make it accessible from thousands of the bank's other computers, all of which may be accessible from the open internet. Instead set up separate local area network (LAN) that cannot connect to the rest of the bank or the internet
7. The technicians may set up a wireless connection so that they could access computers in the locked SWIFT room from other offices within the bank while they worked. This is not susceptible to risk during and subsequent to their work.
8. SSO is attractive but could facilitate frauds
9. Verify whether the technicians kept any USB port on the SWIFT computer, which could make the computer vulnerable to malware that could be installed through a thumb drive
10. Recovering the money already transferred by following the track. Generally correspondent banks & other banks extend quick support in such efforts.

As a finance professional, the candidate should be updated in such cases and hence any answer indicating awareness of this case deserves higher marks.

CASE Answer 2 :-

There is no single right answer for this situation. A good answer should discuss the various money & other market instruments, possible risk and reward profiles, tax implications and generally the policy of distribution of risk with a portfolio approach. The answer could also discuss other innovative ideas like keeping part of the earnings abroad, change in invoicing pattern to take advantage of lags and leads, taking a risk on forex appreciation etc. The answer should discuss here the forex rules allowing this, in which types of investments allowed and the extent.

Merely describing the various money market instruments should be awarded with less than half the max marks. What is important is to analyse and make out a case for this company's investments with reasons.