

1. Banking and financial markets

1

Which of the following is an activity of investment banking and not of commercial banking?

- a. transformation
- b. offering money accounts
- c. asset management
- d. increase the money supply

2

Which of the following is the typical client categorization for a commercial bank?

- a. banks and corporate clients
- b. retail clients and wholesale clients
- c. asset managers and very wealthy clients
- d. governments and defends

3

In which of the following cases is new money created?

- a. When a central bank buys bonds from a commercial bank.
- b. When a central bank lends money to a commercial bank
- c. When a client of commercial bank withdraws money from an ATM
- d. When a commercial bank gives a loan to a client without first borrowing the money

4.

What are main responsibilities of a central bank?

- a. processing inter-bank payments and money creation
- b. money creation and supervision
- c. money creation and providing liquidity to commercial banks
- d. processing inter-bank payments and supervision

5

A bank has a sufficient solvency if it holds enough

- a. balances on its reserve account at the central bank
- b. capital
- c. high quality liquid assets
- d. foreign exchange reserves

6.

What is liquidity risk?

- a. The risk that a bank does not have enough capital
- b. The risk that a bank does not make enough profit
- c. The risk that a bank cannot fulfill its short-term obligations
- d. The risk that a bank does not comply with the regulations

7.

What does the item Due to Customers in the balance sheet mainly represent?

- a. Investments in short-term bonds
- b. Client deposits and balances on client current accounts
- c. Investments in long-term bonds
- d. Long-term funding

8

What is NOT an example of concentration risk?

- a. If a bank relies too much on one source of funding
- b. If the bank only gives loans to automotive companies
- c. If the only type of capital is issued shares
- d. If the bank's has lent a large part of its funds to clients in one and the same foreign country

9

Which of the following regulations is aimed at ensuring that the solvency position of a bank is sufficient?

- a. LCR
- b. IRRBB
- c. Cash reserve requirement
- d. Capital adequacy ratio

10

What is one of the functions of ALCO?

- a. Setting credit limits.
- b. Running a matched trading book.
- c. Setting a policy for operational risk.
- d. Protecting the bank from the adverse effects of changing interest rates.

11

Which of the following activities is NOT a real treasury activity?

- a. cash management
- b. sales
- c. liquidity management
- d. execution of interest rate risk management

12

What is the main role of back office staff?

- a. To check the accuracy of counterparties' mailing addresses
- b. To inform the central bank if a country limit is higher than a fixed level
- c. To ensure that trades are correctly confirmed and settled in accord with best market practices
- d. To communicate with the counterparties' front office staff

2. Financial Instruments

1

The capital market fixed-income is the general term for a financial market in which

- a. short-term debt and securities are traded as well as short-term financial instruments; maturities are generally less than one year
- b. medium to longer-term financial debt instruments are traded and related derivatives
- c. only long-term corporate bonds with maturities of five years or more are traded
- d. only equity instruments are traded

2

If a payment is due value Saturday 31 May and the documentation states that the modified following business day convention will be used, what value day should be applied to the payment?

- a. Saturday 31 May
- b. Tuesday 3 June
- c. Monday 2 June
- d. Friday 30 May

3

What is the standard daycount convention in the GBP money market?

- a) actual/360
- b) actual/365
- c) actual/actual
- d) 30/360

4

A basis point is

- a) 1%
- b) 0.1%
- c) 0.01%
- d) 0.0001%

5

When are the coupons paid for loans that are denominated in euro?

- a) For all contracts terms the coupon payment takes place on the maturity date
- b) For contract with a term longer than one year at maturity and for contracts with a term shorter than one year annually
- c) For all contracts terms the coupon payment takes place annually
- d) For contract with a term shorter than one year at maturity and for contracts with a term longer than one year annually

6

What is true in case of a normal yield curve?

- a. The rates for longer terms are higher than the rates for shorter terms
- b. The rates are the same for all periods
- c. The rates for longer terms are lower than the rates for shorter terms
- d. The rates for all periods are positive

7

EURIBOR is

- a. The rate at which banks in the euro area can obtain short-term wholesale funding
- b. The rate at which EUR interbank term deposits are offered by one prime bank to another prime bank
- c. The rate at which banks are willing to transact repurchase agreements
- d. The official rate of the European Central Bank

8

Which of the following instruments has no contract term?

- a) Share
- b) Fixed-income security
- c) Deposit
- d) Repo

9

Which is the right order of the terms of fixed-income securities (starting with the shortest term)?

- a) Bill, bond, note
- b) Note, bill, bond
- c) Bond, bill, note
- d) Bill, note, bond

10

If Bank A sells bonds to Bank B and, at the same time and as part of the transaction, commits to buy equivalent bonds back on a specified date, Bank A has dealt

- a) a repo
- b) an asset swap
- c) a reverse repo
- d) a bond future

11

During the term of a securities financing transaction, the money borrower is the (1) owner and the money lender is the (2) owner. What should be filled in with (1) and (2)?

- a) legal (1) and legal (2)
- b) legal (1) and economic (2)
- c) economic (1) and legal (2)
- d) economic (1) and economic (2)

12

What is the name for the difference between the bid rate and the ask rate in an FX spot quotation?

- a) Margin
- b) Premium
- c) Gap
- d) Spread

13

Today is Thursday 12th December. What is the settlement date for an FX spot transaction?

- a) 14th December
- b) 15th December
- c) 16th December
- d) 17th December

14

If EUR/JOD is quoted 0.8200, what does this price represent?

- a. 1 euro is worth less than 1 Jordan dinar
- b. 1 JOD is 0.8200 EUR
- c. The JOD interest rate is higher than the EUR interest rate
- d. 1 euro is worth more than 1 Jordan dinar

15

What does a USD/CAD rate of 1.1010 - 20 mean?

- a) The trader is willing to buy 1 CAD for 1.1010 USD
- b) The trader is willing to buy 1 USD for 1.1010 CAD
- c) The trader is willing to buy 1 CAD for 1.1020 USD
- d) The trader is willing to buy 1 USD for 1.1020 CAD

16

When is the rate for an FX Forward deal set?

- a) On the trade date
- b) On the settlement date
- c) On the spot date
- d) Two days prior to the settlement date

17

Forward points represent

- a) The value of a currency against its base
- b) Largely the interest rate differential between the two currencies
- c) The time/value ratio of one currency versus another
- d) The future value of a currency

18

Depending on the interest rates of the two currencies involved, the forward exchange rate

- a) can only be higher than the current spot rate
- b) can only be lower than the current spot rate
- c) can never be the same as the current spot rate
- d) is usually higher or lower than the currency spot rate

19

What is an FX swap?

- a. An exchange of two streams of interest payments in different currencies and an exchange of the principal amounts of those currencies at maturity
- b. A spot sale (purchase) and a forward purchase (sale) of two currencies agreed simultaneously between two parties
- c. An exchange of currencies on a date beyond spot and at a price fixed today
- d. None of the above

20

If a tom/next EUR/JPY swap is traded on Friday 21 June and there are no bank holidays involved, then what would be the value dates of the two swap legs?

- a. 23 June against 24 June
- b. 21 June against 22 June
- c. 21 June against 24 June
- d. 24 June against 25 June

21

Banks mainly use o/n FX swaps

- a. to hedge their FX risk
- b. to obtain funding
- c. in regard to cash management
- d. to hedge interest rate risk

22

Which of the following is characteristic of all derivative instruments?

- a) Trades are executed in nominal amounts
- b) Derivatives are traded OTC
- c) The final settlement of a derivatives trade can only be made by physical delivery
- d) The value of a derivative is determined by the underlying value

23

The IRS market can be used to...

- 1. Swap fixed for floating interest receipts
- 2. Hedge long term interest rate risk
- 3. Swap fixed for floating interest payments
- 4. All of these

24

The notional amount of an interest rate swap is

- a) the sum of all the fixed and floating rate payments
- b) the net difference between fixed and floating rate payments
- c) the principal amount that is transferred at the start date and at the end date of the swap
- d) the amount on which floating and fixed interest payments are calculated

Trading

1

What is true if a bank acts as a market maker?

- a. It is conducting a transaction directly with a client and sets its own price
- b. It is acting as a central counterparty between the client and the exchange and uses the exchange price
- c. It is acting as a central counterparty between the client and the exchange and sets its own price
- d. It is just passing through the transaction to the exchange and does not act as counterparty

2

What is true if a bank acts as an exchange broker?

- a. It is conducting a transaction directly with a client and sets its own price
- b. It is acting as a legal counterparty between the client and the exchange and uses the exchange price
- c. It is acting as a central counterparty between the client and the exchange and sets its own price
- d. It is just passing through the transaction to the exchange and does not act as counterparty

3

Which of the following is a responsibility of an inter-dealer broker?

- a. Act as an agent for a bank.
- b. Act as a principal.
- c. Sending settlement instructions to the settlement institutions.
- d. Fixing the rate for a transaction.

4

What is true in respect to electronic trading platforms?

- a) Electronic broker platforms are only used for FX transactions.
- b) Electronic brokers become the central counterparty in deals that are processed through their systems
- c) Many electronic broking platforms are MTFs
- d) Trades that are concluded on an electronic trading platform are always cleared through a CCP

5.

What is the aim of EMIR?

- a) Increase client protection
- b) Promote fair and transparent markets
- c) Decrease trade volume
- d) Mitigate concentration risk

6.

What is a measure of MiFID II?

- a) Obligation of central clearing for certain instruments
- b) Portfolio compression
- c) Reporting of trades including the price
- d) Requirement of asking for collateral for non-centrally cleared trades

7

What is the replacement risk of an OTC derivative trade?

- a) The risk that there is no liquid market at the exchange to close the trade
- b) The risk that the present value of a trade will be negative one day prior to value date
- c) The risk that an OTC derivative cannot be closed out before maturity
- d) The loss incurred if the counterparty defaults before the maturity date of a derivatives contract

8

Which of the following are responsibilities of a clearing house?

- a) To be buyer to every seller and seller to every buyer
- b) To receive initial margin from buyers and sellers
- c) To oversee the daily variation margining process
- d) All of these

9

How does a CCP manage its counterparty credit risk on a day-to-day basis?

- a) By limiting its opening hours
- b) By applying a market risk limit
- c) By using a margin system
- d) By applying credit limits

10

Generally initial margin means

- a) the notional amount of a contract
- b) an amount that is deposited at the start of a contract
- c) the maximum net loss during the contract period
- d) the daily settlement of profit or loss

4. Processing

1.

If a money market dealer considers placing a given amount at another bank, he must first of all check

- a) the level of the prevailing market rates
- b) if the funds are available on the nostro account of the bank
- c) if the back-office will be able to generate the outgoing payment
- d) the availability of the country limit and the credit line of this counterparty

2

The front-office system checks if a dealer stays within his market risk limit. What is the name of this control?

- a) Confirmation
- b) Reconciliation
- c) Authorization
- d) Verification

3

Which sequence of events best describes the trade process?

- a) netting, trade entry, settlement, confirmation, nostro reconciliation
- b) confirmation, netting, trade entry, settlement, nostro reconciliation
- c) trade entry, confirmation, netting, settlement, nostro reconciliation
- d) trade entry, confirmation, settlement, nostro reconciliation, netting

4

What is the main responsibility of SWIFT?

- a) Executing payment transfers between financial institutions
- b) Supplying balance statements
- c) Safekeeping confidential information for financial institutions
- d) Sending information between financial institutions

5

Below are two statements about SWIFT.

I Only banks use the SWIFT network.

II The most important function of SWIFT is sending messages between financial institutions.

What is true?

- a) Only I is true
- b) Only II is true
- c) I en II are true
- d) I and II are false

6

The back-office sends the transaction data to the counterparty.

What is the name of this control?

- a) Confirmation
- b) Reconciliation
- c) Authorization
- d) Verification

7

Why are confirmations necessary?

- a) Because they authenticate the transaction to the risk manager
- b) Because they authenticate the BIC code of the counterparty when the confirmation is sent via SWIFT
- c) Because they authenticate the exact client data of a counterparty
- d) Because they authenticate transactions to staff independent of the dealing room as well as providing essential information regarding settlement

8

Which kind of confirmation is usually used for inter-bank transactions?

- a) Verbal confirmation
- b) Voice affirmation
- c) Electronic confirmation via SWIFT
- d) Physical confirmation - by fax

9

A bank that executes the local payment traffic for a foreign bank is called an agent bank or a ...(1).... The account that is used for this purpose is referred to by the foreign bank as a ...(2)....account.

What should be filled in for (1) and (2)?

- a) beneficiary bank (1) / nostro (2)
- b) beneficiary bank (1) / loro (2)
- c) correspondent bank (1) / nostro (2)
- d) correspondent bank (1) / loro (2)

10

Below are two statements about interbank payment systems.

I Transfers through a clearing system are executed on a real-time basis.

II An ACH is a settlement institution.

What is true?

- a) Only I is true
- b) Only II is true
- c) I en II are true
- d) I and II are false

11

Below are two statements about interbank payment systems.

I High value payments are executed by an RTGS system.

II Netting is usually a part of the clearing procedure of an ACH.

What is true?

- a) Only I is true
- b) Only II is true
- c) I en II are true
- d) I and II are false

12.

A bank in France has dealt an interbank money market trade with a Mexican bank and must pay in USD. Whom does the French bank instruct for payment?

- a) Its correspondent bank in Mexico
- b) Its correspondent bank in the US
- c) The Federal Reserve Bank
- d) The central bank in Mexico

13.

Which of the following is an example of a foreign currency nostro account from the perspective of a US bank?

- a) A USD account with another US bank
- b) A USD account with a Swiss bank
- c) A CHF account with a Swiss bank
- d) A CHF account of a customer in Switzerland with the Swiss branch of this US bank

14

What risk is mitigated by payment netting?

- a) Audit risk
- b) Legal risk
- c) Credit risk
- d) Market risk

15

What factors determine whether an FX transaction can be settled through the CLS Bank?

- a) Currency pair, price
- b) Counterparty, price
- c) Currency pair, price, counterparty
- d) Currency pair, counterparty

16.

Which of the following statements about correspondent accounts is TRUE?

- a) A bank uses only one correspondent account for every single foreign currency.
- b) Banks usually strive to a zero end of day balance on their nostro accounts.
- c) Banks are not allowed to have an overdraft on their nostro accounts.
- d) The nostro account should always be held at a bank that is not a part of the conglomerate to which the holding bank belongs.

17.

How does a Dutch commercial bank execute its cash management in euro?

- a) Via a euro account with another Dutch commercial bank.
- b) Via a euro account with LCH.Clearnet.
- c) Via a euro account with the Dutch Central Bank.
- d) Via a euro account with Euroclear.

18.

How does a Dutch commercial bank execute its cash management in US-dollars?

- a) Via a US-dollar account with the International Monetary Fund
- b) Via a US-dollar account with the Federal Reserve Bank
- c) Via a US-dollar account with the European Central Bank
- d) Via a US-dollar account with a US correspondent bank

19.

An employee checks whether the expected incoming payments are really transferred to the account with the correspondent bank. What is the name of this control?

- a) Nostro confirmation.
- b) Custodian confirmation.
- c) Nostro reconciliation.
- d) Custodian reconciliation.

20.

Which of the following characterizes DVP?

- a) Securities are first delivered and then the payment is processed
- b) The payment of securities is guaranteed by a settlement bank
- c) Securities are delivered only after the payment has been processed
- d) Securities and payments are processed simultaneously

21.

The depository of your securities

- a) is responsible only for the settlement of those securities
- b) is responsible for both the securities safeguarding and for the settlement
- c) is responsible only for safeguarding the securities that you have on your account
- d) is never responsible for safeguarding your securities

22

What is true in regard to static data?

- a) The integrity of static data is of crucial importance in respect to straight through processing
- b) Static data is be captured by the front office department
- c) Static data only consists of client data
- d) Static data should be controlled by the compliance officer

23.

For which instruments are ISDA-agreements normally used?

- a) Futures and interest rate swaps
- b) Interest Rate swaps and credit derivatives
- c) Credit derivatives and bonds
- d) Bonds and Futures

24.

Confirmation is a function that should be performed by

- a) any dealer who is not involved in the trade.
- b) staff in the back-office who are independent of the trade.
- c) dealing room staff who are not dealing.
- d) anyone excluding the dealing room staff.

25.

Which combination of responsibilities might be allowed?

- a. concluding deals and authorizing them
- b. sending payment instructions and performing the nostro reconciliation
- c. entering SSI and sending payment instructions
- d. sending confirmations and sending payment instructions

26.

Which of the following statements regarding the segregation of duties in the confirmation process is INCORRECT?

- a. Front-office staff should not be able to modify confirmations
- b. The staff who confirm trades should be distinct from those who agree to and execute deals
- c. The process of confirming trades should only be done by operations staff
- d. It is good practice that front-office staff have influence over back-office staff