

1. Banking and financial markets

1.

Which statement about hedging is correct?

- a. Hedging is entering into an open position
- b. Hedging is doing an opposite transaction
- c. Hedging is entering into another type of transaction to mitigate a financial risk
- d. Hedging is an activity that is only executed by clients of banks and not by banks themselves

2.

What is commonly NOT regarded as a part of treasury?

- a) Placing short-term deposits
- b) Converting currencies
- c) Taking up long-term funding
- d) Hedging financial risks

3.

What is liquidity risk?

- a. The risk that a bank does not have enough equity
- 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

4.

What does the item 'Debt Securities Issued' in the balance sheet 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

5.

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.

6.

Which statement about interest rate risk is correct?

- a) The interest rate of the assets is fixed for a longer term than the interest rate for the liabilities, i.e. the risk is that interest rates decrease
- b) The interest rate of the assets is fixed for a longer term than the interest rate for the liabilities, i.e. the risk is that interest rates increase
- c) The interest rate of the assets is fixed for a shorter term than the interest rate for the liabilities, i.e. the risk is that interest rates decrease
- d) The interest rate of the assets is fixed for a shorter term than the interest rate for the liabilities, i.e. the risk is that interest rates increase

7.

What is the aim of funds transfer pricing?

- a) Attributing the net interest income to the commercial business units
- b) Attributing the bank's available capital to the commercial business units
- c) Attributing the costs of the group functions to the commercial business units
- d) Attributing the revenues of the trading positions of the dealing room to the commercial business units

8.

Which of the following activities is NOT apart of the treasury activities in the dealing room of a bank?

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

9.

Which of the following risk relates specifically to market making?

- a) credit risk
- b) market risk
- c) operational risk
- d) liquidity risk

10.

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

11

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

12

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.

13.

‘A place where many market makers can input their prices and where market users can engage into trades based on these prices’. Which way of trading is described here?

- a) An exchange
- b) A bilateral trading system
- c) Trading via a central counter party
- d) An electronic broking system

14.

What is the aim of EMIR?

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

15.

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

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
- b. long 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

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

9

During the term of a repo 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)

10

What is true in regard to the issuance of fixed income securities?

- a. All fixed income securities are issued on the secondary market
- b. All fixed income securities are issued on the primary market
- c. Only long-term fixed income securities are issued on the primary market
- d. Only short-term fixed income securities are issued on the primary market

11.

Which of the following bonds is an example of a eurobond?

- a. A USD-denominated bond issued by a US entity in the US
- b. A GBP-denominated bond issued by a US entity in the US
- c. A USD-denominated bond issued by a non-US entity in the US
- d. A GBP-denominated bond issued by a US-resident subsidiary of a UK company in the UK

12.

What type of money market paper can only be issued by banks?

- a) Certificates of Deposit
- b) Commercial Paper
- c) Bonds
- d) Treasury Bills

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.

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

16

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) is not affected by the interest rate differential
- c) can never be the same as the current spot rate
- d) is usually higher or lower than the currency spot rate

17

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

18

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

19

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

20

What is considered to be a good reason for a company to buy an FRA?

- a. Speculating on rising interest rates
- b. Closing a short position in FRAs
- c. Protecting itself against increase in interest rates
- d. Setting up an arbitrage position against a bought money market future

21.

Today is Monday 8 March. You sell a 6x9 FRA. When will the settlement amount be paid or received, assuming that there are no bank holidays?

- a. 8 September
- b. 10 September
- c. 8 December
- d. 10 December

22

The IRS market can be used to...

- a) Swap fixed for floating interest receipts
- b) Hedge long term interest rate risk
- c) Speculate in interest rate movements
- d) baAll of these

23

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

24.

Which of the following is a description of a long OTC FX option?

- a. The obligation to buy one currency at a predetermined price
- b. The right to buy one currency at a predetermined price
- c. An option dealt on the exchange
- d. An interest rate protection instrument

25.

An option that gives the right to exercise only on the maturity date is called a

- a. American style option
- b. Bermudan style option
- c. Asian option
- d. European style option

26

What is true in regard to call options?

- a. The result for the buyer of a call option is always negative
- b. The result for the seller of a call option is negative for every spot price on the exercise date that is higher than the strike price
- c. The buyer of a call option has limited loss potential and unlimited profit potential
- d. The seller of a call option has limited loss potential and unlimited profit potential

27.

In hedging, caps are frequently

- a. purchased by issuers of floating rate debt
- b. sold by issuers of floating rate debt
- c. purchased by investors in fixed rate bonds
- d. sold by investors in floating rate bonds

28.

What deals are usually associated with a long collar?

- a. A purchase of a cap and a sale of a cap with a higher strike
- b. A purchase of a cap and the purchase of a floor
- c. A purchase of a cap and the sale of a floor
- d. A purchase of a floor and a sale of a floor with a lower strike

29

Oil swaps are traded (1) and they have (2) fixing(s).
What should be filled in for (1) and (2)?

- a) (1) OTC and (2) only 1
- b) (1) OTC and (2) multiple
- c) (1) on an exchange and (2) only 1
- d) (1) on an exchange and (2) multiple

30

A company has bought an oil future with a contract price of USD 85. During the term, the oil price is USD 89. What is true?

- a) The contract has a positive value for the company and there has been no settlement the result until now
- b) The contract has a negative value for the company and there has been no settlement the result until now
- c) The contract has a positive value for the company and the total result has already been settled
- d) The contract has a negative value for the company and the total result has already been settled

31

An oil Futures buyer defaults *during the day*. The last closing price was 88 for which the margin was settled. If the initial margin was set at 2,000 per contract and the future now trades at 85, what will happen?

- a) The initial margin is sufficient and the CCP wil pay USD 1,000 per contract to the buyer
- b) The initial margin is insufficient and the CCP wil do an extra margin call for USD 1,000 per contract
- c) The initial margin is insufficient and the CCP wil take USD 1,000 per contract out of the default fund
- d) The CCP does not take any action and waits until the buyer will have been recovered

3. 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 credit line of this counterparty

2

Which system is sending the trade information to the reporting system?

- a) Back-Office System
- b) Trading Platform
- c) Front-office system
- d) Archive system

3

Which sequence of events best describes the trade process?

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

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 members

5

Below are two statements about SWIFT.

I Only banks use the SWIFT network.

II The most important function of SWIFT is to settle payments

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

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

8

A bank that executes the 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)

9

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

10

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

11.

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.

12.

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.

13.

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.

14.

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

15.

The depository of your securities

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

16

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

17.

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.

18.

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

19.

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