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Topic 3, Volume C	100
Topic 4, Volume D	100
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QUESTION NO: 1

Bank XYZ calls you for a quote in EUR/USD for EUR 50,000,000.00. If you decide to quote, which of the following is true?

- A. You must be prepared to deal EUR 50,000,000.00.
- B. You may quote without stating the amount you are prepared to deal.
- C. You are only committed to deal in a marketable amount.
- D. You must be prepared to deal for more than EUR 50,000,000.00 in case Bank XYZ wishes to.

ANSWER: A

QUESTION NO: 2

Are the forward points materially affected by changes in the spot rate?

- A. never
- B. Only for very large movements and longer terms
- C. always
- D. spot is the principal influence

ANSWER: B

QUESTION NO: 3

What is the major difference between a CD and a deposit?

- A. The CD yields a higher rate of return
- B. The CD has less credit risk
- C. The CD is a transferable instrument
- D. The CD has a shorter range of maturities

ANSWER: C

QUESTION NO: 4

What does the Model Code say about omitting the “big figure” in voice communication?

- A. The “big figure” should not be included in outright quotations.
- B. In order to avoid misunderstandings, the “big figure” should not be mentioned when repeating the details (facts/rates) of the deal.
- C. For the sake of brevity and efficiency, “big figures” should never be quoted at all in spot FX trading.
- D. The Model Code recommends that the “big figure” be included in all outright and spot FX quotations.

ANSWER: D

QUESTION NO: 5

How can material divergences between the value of cash and collateral be managed in a documented sell/buy-back?

- A. Margin maintenance
- B. Re-pricing
- C. Either of the above, but usually (a)
- D. Either of the above, but usually (b)

ANSWER: D

QUESTION NO: 6

A 12-month EUR/USD swap is quoted at 41/44. EUR interest rates are expected to fall, with USD interest rates remaining stable.

Assuming no change in the spot rate what effect would you expect on the forward points?

- A. Unchanged
- B. Move towards 28/31
- C. Move towards 5 7/60
- D. Insufficient information

ANSWER: C

QUESTION NO: 7

A dealer has been invited by a broker to go to an exclusive club for the third time in a week. He should:

- A. agree, since entertainment is a normal part of business
- B. refer this to senior management
- C. agree but insist on paying half the cost
- D. agree, if the broker pays for the event but does not attend it

ANSWER: B

QUESTION NO: 8

Which of the following statements is correct?

- A. With liquidity transfer pricing (LTP) banks attribute the costs, benefits and risks of liquidity to respective business units within a bank
- B. With liquidity transfer pricing (LTP) banks are monitoring and diversifying their funding base
- C. With liquidity transfer pricing (LTP) banks are agreeing with external liquidity providers on the fair market price of funds
- D. Liquidity transfer pricing charges providers of funds for the cost of liquidity and users of funds for the benefit of liquidity

ANSWER: A

QUESTION NO: 9

Taking collateral to hedge the credit risk on a counterparty means that you have:

- A. Eliminated credit risk
- B. Eliminated market risk
- C. Taken a guarantee from the issuer of the collateral
- D. Taken on market, legal and operational risks

ANSWER: D

QUESTION NO: 10

The organisational structure of market participants should ensure a strict segregation between front and back office of:

- A. Duties and reporting lines.
- B. Systems.
- C. Career paths.
- D. All of the above.

ANSWER: A

QUESTION NO: 11

After having quoted a rate of 1.5005-10, the quoting bank says, "Your risk". This means:

- A. The quoted rate is subject to change at the risk of the price-taker
- B. The quoting bank is reminding you of the market risk of your potential trade
- C. This is a requirement of any market maker
- D. The market maker needs to check your credit limit

ANSWER: A

QUESTION NO: 12

Your broker quotes you EUR/USD at 1.3425-28. You respond by saying "yours". Which one of the following statements is true?

- A. You are committed to sell a marketable EUR amount unless the quote was for a specific amount.
- B. You are committed to sell to the counterparty his full EUR amount subject to credit limits on the counterparty.
- C. You are committed to sell EUR up to the amount permitted by your credit limits on the counterparty.
- D. You are committed to sell a marketable USD amount unless the quote was for a specific amount.

ANSWER: A

QUESTION NO: 13

Click on the Exhibit Button to view the Formula Sheet. A 6-month (182-day) investment of CHF15.5 million yields a return of CHF100,000. What is the rate of return?

- A. 1.32%
- B. 1.29%
- C. 1.28%
- D. 0.65%

ANSWER: C

QUESTION NO: 14

Issues relating to the bank's liquidity management are commonly discussed in:

- A. the Asset Liability Management Committee (ALCO)
- B. the Financial Resources and Compensation Committee
- C. the Credit Committee
- D. the Federal Open Market Committee

ANSWER: A

QUESTION NO: 15

What do you call a combination of a long (short) call option and short (long) put option with same face value, same expiration date, same style, where the strike price is equal to the forward price?

- A. a synthetic forward
- B. a straddle
- C. risk reversal
- D. a strangle

ANSWER: A

QUESTION NO: 16

Which position below is NOT a component of common equity Tier 1 capital?

- A. innovative hybrid capital instruments with incentives to redeem
- B. common shares issued by bank

- C. retained earnings
- D. stock surplus (share premium)

ANSWER: A

QUESTION NO: 17

Which of the following statements is true concerning dealing and rollovers at non-current rates?

- A. When setting the rates for an FX swap to extend the maturity, the spot rate should be fixed immediately within the current spread
- B. Where the use of non-current rates may be necessary, they should only be entered into with the prior explicit permission of the quoting party's senior management
- C. Dealing and rollovers at non-current rates are relatively common market practice and therefore should not be treated differently from any other transaction
- D. Dealing and rollovers at non-current rates are forbidden as they can help perpetrate fraud and tax evasion

ANSWER: A

QUESTION NO: 18

An FRA is:

- A. A cash instrument
- B. An exchange traded derivative
- C. An interest rate derivative
- D. A balance sheet instrument

ANSWER: C

QUESTION NO: 19

The gamma of an option is:

- A. The sensitivity of the option value to changes in volatility
- B. The sensitivity of the option value to changes in the time to expiry
- C. The sensitivity of the delta to changes in the value of the underlying

D. The sensitivity of the option value to changes in the price of the underlying

ANSWER: C

QUESTION NO: 20

You are paying 5% per annum paid semi-annually and receiving 6-month LIBOR on a USD 10 million interest rate swap with exactly two years to maturity . 6-month LIBOR for the next payment date is fixed today at 4.95%. You expect 6-month LIBOR in 6 months to fix at 5.25%, in 12 months at 5.35% and in 18 months at 5.40%. What do you expect the net settlement amounts to be over the next 2 years? Assume 30-day months.

- A. pay 250, receive 1,250, receive 1,750, receive 2,000
- B. receive 250, pay 1,250, pay 1,750, pay 2,000
- C. pay 2,500, receive 12,500, receive 17,500, receive 20,000
- D. receive 2,500, pay 12,500, pay 17,500, pay 20,000

ANSWER: C