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Topic Break Down

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Total	827

QUESTION NO: 1

What is the ISO code for the Lebanon pound?

A. LEP

B. LBD

C. LBP

D. LNP

ANSWER: C

Explanation:

The correct ISO 4217 currency code for the Lebanese pound is **LBP**. ISO 4217 assigns three-letter alphabetic codes to currencies used in international dealing, trade documentation, payment instructions, market-data systems, and financial reporting. The code is formed using **LB**, the ISO 3166-1 alpha-2 country identifier for Lebanon, followed by **P** for pound. In practical foreign-exchange and money-market usage, LBP is therefore the unambiguous standard identifier for amounts denominated in Lebanese pounds. The currency's ISO 4217 numeric code is 422, which may be used in systems that require numeric currency identification. Correct use of the recognised ISO code is important in a dealing environment because it supports consistent confirmation, settlement, reconciliation, and communication between counterparties and financial-market infrastructure. ISO's currency-code information is available at ISO 4217 Currency codes, while the official ISO 4217 maintenance-agency currency list identifies Lebanon's currency as LBP (numeric 422): ISO 4217 list of currency and fund codes.

QUESTION NO: 2

Which Greek letter is used to describe the ratio of change in the option price compared with change in the price of the underlying instrument, when all other conditions are fixed?

A. beta

B. gamma

C. delta

D. theta

ANSWER: C

Explanation:

delta is the option Greek that measures the sensitivity of an option's value to a change in the price of its underlying instrument, assuming other pricing inputs remain unchanged. It is commonly expressed as the approximate change in the option premium for a one-unit change in the underlying price, or mathematically as the first derivative of option value with respect to the underlying price. For example, a delta of 0.50 indicates that, all else equal, the option price is expected to increase by approximately 0.50 for each 1.00 increase in the underlying instrument's price. Delta also represents the hedge ratio: it indicates the approximate quantity of underlying exposure needed to offset a small movement in the option's value. Delta is generally positive for call options and negative for put options, reflecting their respective directional price relationships with the underlying. This definition is consistent with standard derivatives terminology used in dealing and risk management. See the CME Group overview of option Greeks and the U.S. SEC investor bulletin on options.

QUESTION NO: 3

You are quoted the following rates:

Spot cable1.5340-43

0/N cable swap0.14/0.11

T/N cable swap0.16/0.13

S/N cable swap0.43/0.37

At what rate can you buy cable for value tomorrow?

A. 1.534284

B. 1.534316

C. 1.534287

D. 1.534313

ANSWER: A

Explanation:

The correct dealing rate is **1.534284**. “Cable” is GBP/USD, quoted as US dollars per pound sterling. Buying cable means buying GBP and therefore using the offer side of the relevant outright rate. The required value date is tomorrow, whereas the spot rate settles on the next business day after tomorrow. The T/N swap bridges those two dates: its near leg is tomorrow and its far leg is spot. Consequently, the tomorrow outright must be obtained by working backwards from spot, so the T/N points are subtracted rather than added.

When calculating an outright rate for the near date of a swap, the applicable sides must preserve the dealer’s bid-offer spread. For a customer buying GBP for tomorrow, use the spot offer of 1.534300 and subtract the T/N bid points of 0.16, expressed in the rate as 0.000016. The calculation is therefore 1.534300 − 0.000016 = 1.534284. This is the executable offer at which the customer can buy cable for tomorrow value. Correct application of value dates, swap-point direction, and bid-offer sides is fundamental to FX swap and outright pricing practice, consistent with the principles described in the FX Global Code and ACI’s professional-market resources at ACI Financial Markets Association.

QUESTION NO: 4

You are quoting forward FX prices to a broker subject to finding a counterparly for a matching transaction. The Model Code says:

A. You must tell the broker, who must qualify your quotes.

B. For credit reasons, you must tell the broker when he presents a name.

C. You cannot do this.

D. The Model Code does not make recommendations on this subject.

ANSWER: A

Explanation:

You must tell the broker, who must qualify your quotes. is correct because a forward-FX price that is conditional on the dealer being able to locate an acceptable matching counterparty is not an unqualified, firm dealing price. The condition is material to the status of the quotation and must therefore be disclosed to the broker at the time the price is given. The broker then has a corresponding responsibility to communicate that qualification clearly to the party receiving the quote, so that no participant treats the indication as an unconditional commitment.

This approach protects the integrity of the dealing process by ensuring that all parties understand whether a price is executable immediately or remains dependent on an outstanding condition. It is consistent with the core FX-market principle that market participants should communicate in a clear, accurate, and non-misleading manner, including the nature and terms of any quotation. The FX Global Code’s guidance on clear communication and execution practices provides the modern global framework for these expectations; see the FX Global Code. ACI’s professional-market standards and educational materials are available through ACI Financial Markets Association.

QUESTION NO: 5

Under the Model Code, it a broker shouts “done” or “mine” at the very moment a dealer shouts

“off”:

A. No deal is done.

B. The deal is done.

C. It should be resolved in consultation with senior management.

D. The central bank should be consulted.

ANSWER: B

Explanation:

The deal is done. Under the ACI Model Code’s dealing conventions, a dealer’s price is capable of acceptance until it is effectively withdrawn. Where the broker’s unambiguous acceptance—using “done” or “mine”—and the dealer’s withdrawal—using “off”—occur at precisely the same moment, the convention resolves the uncertainty in favour of the transaction being binding. This avoids leaving a concluded verbal market agreement subject to an impractical attempt to determine fractions of a second in a fast-moving dealing environment.

“Done” and “mine” are recognised expressions of acceptance when used by a broker dealing on behalf of a counterparty. Once the relevant terms, such as instrument, amount, price, and value date, are understood, the parties must treat the transaction as concluded and follow their normal post-trade confirmation and control procedures. This rule supports certainty, market integrity, and prompt identification of trades, all of which are central principles of professional wholesale financial-market conduct. The ACI Financial Markets Association publishes the Model Code framework at ACI Model Code. Comparable expectations for clear, timely communication and confirmation of transactions are set out in the FX Global Code.

QUESTION NO: 6

If a 12-month AUD/NZD swap is quoted 53/47, which of the following statements would you consider to be correct?

A. 12-month AUD rates are higher than 12-month NZD rates

B. 12-month AUD rates are lower than 12-month NZD rates

C. Spot AUD/NZD will be higher by approximately 50 points in 12 months

D. The AUD yield curve is positive, whilst the NZD curve is negative

ANSWER: A

Explanation:

“12-month AUD rates are higher than 12-month NZD rates” is correct. In this market convention, AUD/NZD is expressed as NZD per one AUD. A 12-month swap quotation of 53/47, with the bid side numerically above the offer side, represents a forward discount (or deport) in the swap-point convention: the 12-month forward AUD/NZD rate is below the spot AUD/NZD rate. The points are therefore subtracted from spot when calculating the relevant forward outright rate.

Covered interest parity links that forward discount to the relative interest rates of the two currencies. For an AUD/NZD quote, the relationship can be expressed as F/S = (1 + NZD interest rate) / (1 + AUD interest rate), using comparable tenors and market day-count conventions. If the forward rate is below spot, this ratio is below one. Consequently, the AUD interest rate must be greater than the NZD interest rate for the 12-month period. This is the economic basis for interpreting FX swap points: they reflect the interest-rate differential between the two currencies rather than an independent forecast of where the spot exchange rate will trade at maturity. See the BIS overview of FX instruments at BIS Triennial Survey and the covered-interest-parity relationship at Interest Rate Parity.

QUESTION NO: 7

The major difference between FRAs and futures is that FRAs are:

A. Exchange-traded

B. Margined

C. Standardized

D. Dealt over the counter

ANSWER: D

Explanation:

“Dealt over the counter” is correct because a forward rate agreement is an OTC interest-rate derivative: its terms are negotiated directly between the counterparties rather than traded through a centralized exchange. The parties can tailor key contractual details—including the notional amount, reference interest rate, contract dates, fixing date, and settlement convention—to their specific funding or hedging requirement. This bilateral structure also means that each party takes counterparty credit exposure to the other, subject to any applicable collateral, netting, and credit-support arrangements.

The Bank for International Settlements describes OTC derivatives as contracts that are privately negotiated rather than traded on an organized exchange. An FRA fits this description: it locks in an interest rate for a specified future borrowing or lending period and normally settles in cash at the start of that reference period, based on the difference between the agreed rate and the observed market reference rate. The tailored, bilateral nature of the transaction is therefore the defining distinction required here. See the BIS overview of OTC derivatives at https://www.bis.org/statistics/about_derivatives_stats.htm and ISDA’s explanation of OTC derivatives markets at https://www.isda.org/a/ARnTE/OTC-Derivatives-Market-Reform-Overview.pdf.

QUESTION NO: 8

If there is a need for assistance to help resolve a dispute over differences between a broker and a bank, the Model Code suggests turning to:

A. the monetary authority in the country where the broker is located

B. the banking association in the country where the bank is located

C. the Committee for Professionalism of the ACI

D. the local foreign exchange market committee

ANSWER: C

Explanation:

The Committee for Professionalism of the ACI is the appropriate body identified by the ACI Model Code for assistance with a dispute involving a broker and a bank. The Model Code promotes prompt, professional resolution of differences in the OTC financial markets and recognizes that a neutral ACI professional body may be needed where the parties require help beyond their direct bilateral discussions. The Committee for Professionalism supports adherence to the standards of conduct embodied in the Model Code and can consider matters involving professional market practice. Its involvement helps ensure that a dispute is addressed against shared principles of integrity, fair dealing, proper conduct, and market professionalism rather than solely from the perspective of one party’s domestic institution or regulatory setting. This escalation route is particularly relevant to the interprofessional relationship between market participants and intermediaries, where maintaining trust and orderly market practice is essential. ACI’s Model Code framework and its professionalism function are described by ACI Financial Markets Association at ACI Model Code and ACI Committee for Professionalism.

QUESTION NO: 9

The market is quoting:

3-month (90-day) NZD 2.55%

6-month (182-day) NZD 2.75%

What is the 3x6 rate in NZD?

A. 2.338%

B. 2.650%

C. 2.927%

D. 2.992%

ANSWER: C

Explanation:

The correct 3x6 NZD forward rate is **2.927%**. A 3x6 rate is the implied money-market borrowing or lending rate for the period beginning in three months and ending in six months. It is derived by equating the return from investing for the full 182-day term with the compounded return from first investing for 90 days and then reinvesting for the remaining 92 days. NZD money-market calculations use an actual/365 day-count basis. Accordingly, the forward-rate calculation is: [((1 + 0.0275 × 182/365) ÷ (1 + 0.0255 × 90/365)) − 1] × 365/92. This produces approximately 0.02927, or 2.927%. The calculation appropriately uses the 92-day interval between the quoted 90-day and 182-day deposit maturities, while preserving the no-arbitrage relationship between the two observed NZD term rates. This is the standard forward-forward deposit logic used in money markets: discount factors or deposit accrual factors for the two maturities imply the rate applicable over the intervening period. ACI's professional education framework covers the conventions and calculations applied in financial-market dealing; see ACI FMA Education. For a general description of forward interest-rate agreements and their role in fixing a future borrowing rate, see Investopedia: Forward Rate Agreement.

QUESTION NO: 10

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

Explanation:

With liquidity transfer pricing (LTP) banks attribute the costs, benefits and risks of liquidity to respective business units within a bank is correct because liquidity transfer pricing is an internal management framework. It assigns a transfer rate to the funding supplied by deposit-gathering or treasury functions and to the liquidity consumed by lending, trading, and other asset-producing functions. This ensures that business-unit profitability reflects the economic value of stable funding, the cost of contingent liquidity, and the liquidity-risk profile of the assets and liabilities originated by that unit.

Properly designed LTP therefore supports sound product pricing, performance measurement, and incentives. A business line that creates assets requiring longer-term or less reliable funding should bear the associated internal liquidity cost, while a unit that provides stable funding receives an appropriate internal benefit. The central treasury function can then manage the bank's aggregate funding and liquidity position while business decisions incorporate liquidity costs rather than treating liquidity as a free shared resource. The Basel Committee identifies liquidity-cost allocation and transfer-pricing mechanisms as important elements of liquidity-risk management, and supervisory guidance similarly describes funds transfer pricing as a tool for allocating liquidity costs and benefits across business lines. See the Basel Committee's Principles for Sound Liquidity Risk Management and Supervision and the Federal Reserve liquidity-risk management guidance.

QUESTION NO: 11

Which of the following would not constitute an event of market isruption under the Model Code?

A. The imposition of capital controls.

B. A major terrorist attack on a financial centre.

C. The failure of SWIFT.

D. Concerted cestal bank intervention.

ANSWER: D

Explanation:

Concerted cestal bank intervention is the correct choice (with “cestal” evidently intended to mean “central”). A concerted intervention by central banks is a policy action conducted within the functioning foreign-exchange market. Although it may materially affect exchange rates, liquidity, and market expectations, it does not by itself prevent market participants from dealing, communicating, making payments, or settling transactions. It is therefore not normally treated as a market-disruption event under the Model Code.

The Model Code’s market-disruption concept is directed at exceptional circumstances that impair the practical operation of the market or its infrastructure, so that parties may be unable to execute, confirm, pay, or settle transactions in the normal way. The distinction is important in contractual and dealing practice: an official policy operation can create substantial market volatility without creating an operational inability to perform. Dealers should consequently continue to manage pricing, risk limits, and client communications in accordance with normal procedures when intervention occurs, unless a separate operational disruption arises. The ACI FMA Model Code provides the professional framework for conduct and good practice in wholesale financial markets; see the ACI FMA Model Code and ACI FMA’s official website.

QUESTION NO: 12

Does the slope of the interest yield curve typically have a substantial impact on a bank’s net interest margin?

A. No, it doesn’t, since the slope of the yield cure is unrelated to the spread between short-term and long-term interest rates.

B. No, it doesn’t. There isn’t any link at all between the slope of the interest yield curve and a bank’s net interest margin.

C. Yes it does. In banking, long-term rates usually apply to bank deposits and money market borrowings whereas short-term interest rates are attached to loans and securities.

D. Yes it does. Long-term rates usually apply to a bank’s assets (loans, securities, etc.) and the short term interest rates are generally attached to liabilities (deposits, money market borrowings, etc.).

ANSWER: D

Explanation:

Yes it does. Long-term rates usually apply to a bank’s assets (loans, securities, etc.) and the short term interest rates are generally attached to liabilities (deposits, money market borrowings, etc.). This describes the traditional banking model of maturity transformation: banks commonly fund themselves using relatively short-term, rate-sensitive deposits and wholesale borrowing, while investing or lending over longer maturities. Net interest margin is the difference between interest earned on those assets and interest paid on funding, expressed relative to earning assets. Consequently, the yield curve’s slope is a significant driver of that margin. A normally upward-sloping curve can support margin by allowing longer-dated assets to earn more than short-dated liabilities cost. The precise effect depends on each bank’s asset-liability mix, contractual repricing dates, deposit behaviour, hedging, and the speed at which rates are passed through to customers, but the fundamental relationship remains substantial. This exposure is part of interest-rate risk in the banking book, which supervisors expect banks to identify, measure, monitor, and control. The Basel Committee explains the relevance of changes in interest rates and yield curves to banks’ economic value and earnings in its Interest rate risk in the banking book standard. The Federal Reserve also discusses bank interest-rate risk and the role of maturity and repricing mismatches in its interest-rate risk supervisory resources.

QUESTION NO: 13

You expect short-term interest rates to fall. What position would you take in a short-term interest rate futures contract quoted as 100 minus the implied interest rate?

A. Buy futures

B. Sell futures

C. Sell a call option only

D. Sell a forward-forward deposit only

ANSWER: A

Explanation:

The correct position is to **buy futures**. A short-term interest rate futures contract quoted as 100 minus the implied interest rate moves inversely to the relevant interest rate. If the expected interest rate falls, the futures price rises.

A long futures position therefore gains when rates decline and the contract price increases. Conversely, a short position benefits from rising interest rates and falling futures prices. This inverse price-rate relationship is a central feature of short-term interest rate futures. See CME Group's introduction to interest rate futures.

QUESTION NO: 14

Which one of the following formulae is correct?

A. Long a straight bond + pay fixed on a swap = long a synthetic Floating Rate Note

B. Long a straight bond + pay floating on a swap = long a synthetic Floating Rate Note

C. Short a straight bond + receive fixed on a swap = long a synthetic Floating Rate Note

D. Short a straight bond + pay fixed on a swap = long a synthetic Floating Rate Note

ANSWER: A

Explanation:

Long a straight bond + pay fixed on a swap = long a synthetic Floating Rate Note is correct. A straight bond normally provides fixed coupon payments. Entering a plain-vanilla interest-rate swap as the fixed-rate payer means the investor pays a fixed swap rate and receives a floating rate, generally referenced to an agreed benchmark plus any applicable spread. The fixed coupon received on the bond is economically offset by the fixed leg paid under the swap, assuming the bond coupon and swap fixed rate are appropriately matched. What remains is the floating-rate amount received under the swap, while the investor continues to own the bond principal claim. The combined position therefore converts the bond's fixed-rate coupon exposure into floating-rate exposure and replicates the essential cash-flow profile of a long floating-rate note. In dealing practice, the hedge is most exact when the bond and swap have aligned notional amounts, payment dates, maturity, day-count conventions, and credit assumptions; any differences create basis, credit, or timing residuals. ISDA describes an interest-rate swap as an agreement to exchange interest payment streams, including fixed and floating amounts; see ISDA Interest Rate Derivatives Definitions. The Bank for International Settlements also outlines the fixed-for-floating structure of interest-rate swaps in its discussion of OTC derivatives.

QUESTION NO: 15

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

Explanation:

Innovative hybrid capital instruments with incentives to redeem is the position that is not a component of Common Equity Tier 1 (CET1) capital. CET1 is the highest-quality form of regulatory capital because it is intended to absorb losses immediately and on a going-concern basis. Its core elements are issued common shares that meet the regulatory eligibility criteria, the associated share premium, retained earnings, and certain disclosed reserves. These instruments represent the bank's most permanent and fully loss-absorbing capital base.

A hybrid instrument is not a common share, and an incentive for the issuer to redeem it undermines the permanence expected of CET1. Regulatory capital rules distinguish common equity from instruments with hybrid debt/equity characteristics and contractual features affecting redemption. Basel's CET1 eligibility criteria therefore require the instrument to be issued directly by the bank, be perpetual, have no maturity date, and not create an expectation that it will be redeemed. The Basel Committee describes CET1 and its required features in the Basel Framework, CAP 10; the overall Basel III capital reforms are available from the Bank for International Settlements.

QUESTION NO: 16

The intrinsic value of a long call option:

A. Falls and rises with the price of the underlying commodity, but is always positive

B. Rises if the price of the underlying commodity falls and vice versa

C. Depends solely on the volatility of the price of the underlying commodity

D. Becomes negative if the market price of the underlying commodity falls below the strike price of the option

E. Rises as the price of the underlying commodity rises above the strike price, but is zero when the market price is at or below the strike price

ANSWER: E

Explanation:

The intrinsic value of a long call option is the immediate economic value obtained by exercising the option at the current market price. It equals the amount, if any, by which the underlying commodity's market price exceeds the option's strike price. Consequently, intrinsic value rises one-for-one as the underlying price rises above the strike price. If the underlying price is equal to or below the strike price, exercising would provide no economic benefit, so intrinsic value is zero—not a loss and not a negative amount. A long call's intrinsic value is therefore always non-negative, but it is not necessarily positive. This distinction is important: an option may still have a positive market premium when intrinsic value is zero because its premium can include time value, reflecting the possibility of a favourable future price movement before expiry. Volatility can affect that time-value component and therefore the option premium, but it does not by itself determine intrinsic value at a particular point in time. This treatment follows standard options-market conventions for in-the-money, at-the-money, and out-of-the-money options. See the CME Group explanation of option moneyness and the Options Clearing Corporation options disclosure documentation.

QUESTION NO: 17

You are quoted the following market rates:

Spot EUR/USD 1.3010

6M (181-day) EUR 0.30%

6M (181-day) USD 0.50%

What is 6-month EUR/USD?

A. 1.2993

B. 1.3023

C. 1.3141

D. 1.4323

ANSWER: B

Explanation:

1.3023 is the correct six-month EUR/USD forward rate. EUR/USD is quoted as US dollars per euro, so covered interest parity requires the spot rate to be adjusted by the relative dollar and euro interest accruals: forward = spot × (1 + USD rate × days/360) ÷ (1 + EUR rate × days/360). Using the given 181-day money-market period, the calculation is 1.3010 × [1 + (0.0050 × 181/360)] ÷ [1 + (0.0030 × 181/360)]. This produces approximately 1.3023 after rounding to four decimal places.

The intuition is that the US dollar interest rate for the period exceeds the euro interest rate. Consequently, the forward price in US dollars for one euro is marginally higher than the spot price. This is the standard no-arbitrage relationship for an FX forward: borrowing one currency, converting at spot, investing the other currency, and locking in the future conversion must give the same result as contracting directly at the forward rate. The use of a 360-day money-market basis is appropriate for the stated short-term interest-rate inputs. For further discussion of FX forwards and their interest-rate relationship, see CME Group's overview of FX forwards and the Bank for International Settlements discussion of covered interest parity.

QUESTION NO: 18

What is Funds Transfer Pricing in the ALM process?

A. A maturity analysis of a bank's interest-bearing assets and interest-bearing liabilities.

B. A method used to measure how much each source of funding is contributing to overall profitability.

C. A calculation of the spread between the duration of the interest-bearing assets and the interestbearing liabilities.

D. The evaluation and management of the gap between a bank's volume of loans and deposits.

ANSWER: B

Explanation:

Funds Transfer Pricing is correctly described as "A method used to measure how much each source of funding is contributing to overall profitability." In asset-liability management, funds transfer pricing is an internal pricing framework through which a bank assigns a transfer rate to the funds raised by business units and to the funds deployed in loans or investments. This separates the value created by originating deposits or other funding from the value created by lending, investing, and managing customer margins. It therefore allows management to attribute net interest income and profitability more fairly to the relevant products, desks, or business lines, rather than allowing results to be distorted by differences in funding tenor, liquidity value, or interest-rate characteristics.

A sound framework also gives decision-makers economically meaningful signals when setting product prices and assessing performance. By incorporating the marginal cost or value of funds, it supports consistent management of interest-rate risk and liquidity risk across the balance sheet, which are core ALM responsibilities. The Basel Committee's principles on interest-rate risk in the banking book explain the importance of measuring and managing banking-book interest-rate exposures: BIS: Interest rate risk in the banking book. The European Central Bank also discusses funds transfer pricing as a key element of internal risk-transfer and profitability frameworks: ECB guide on interest-rate risk management.

QUESTION NO: 19

Is gambling or betting between market participants allowed?

A. Yes, it is allowed for sporting events.

B. Yes, it is allowed if no money is involved.

C. Although not prohibited, it is strongly discouraged.

D. It is allowed for purposes of charity.

E. No, gambling or betting between market participants is prohibited.

ANSWER: E

Explanation:

“No, gambling or betting between market participants is prohibited.” is correct. Professional dealing activity must be conducted with integrity, sound judgement, and a clear distinction between legitimate market transactions and personal wagers. Gambling or betting between participants creates avoidable conflicts of interest, may impair professional judgement, and risks undermining confidence in the fairness and reputation of the market. This applies to betting arrangements made directly between participants, rather than to properly authorised trading activity undertaken for a genuine commercial, hedging, investment, or market-making purpose.

ACI’s Model Code sets standards of conduct for financial-market professionals and is intended to promote ethical, transparent, and professional behaviour in dealing environments. Its conduct principles require participants to avoid behaviour that can compromise the integrity of the market or the standing of market professionals. The prohibition is therefore a professional-conduct requirement, not a rule that depends on the purpose of a wager, whether funds are exchanged, or the nature of the event on which the wager is made. See the ACI Model Code and the integrity principles in the FX Global Code.

QUESTION NO: 20

Risk capital is intended to ensure that an institution can:

A. Survive a liquidity crisis

B. Absorb credit losses

C. Absorb any type of unexpected loss

D. Absorb any type of expected loss

ANSWER: C

Explanation:

Risk capital is intended to ensure that an institution can **absorb any type of unexpected loss**. In risk-management terms, expected losses are the losses a firm anticipates as part of normal business activity, based on historical experience and forward-looking estimates. Those expected costs should ordinarily be reflected in pricing, provisioning, reserves, and routine profit-and-loss planning. Capital serves a different protective function: it provides a financial buffer for adverse outcomes that exceed what was expected.

Unexpected losses may arise from credit defaults exceeding provisions, market movements beyond measured expectations, operational failures, legal events, model weaknesses, or other material risk events. By holding adequate capital, an institution can sustain such losses while continuing to meet obligations and operate safely. This loss-absorption role protects depositors, counterparties, and the broader financial system, and is central to prudential capital regulation. The Basel framework describes regulatory capital as supporting the absorption of losses, while its capital standards are designed to improve banks’ resilience to shocks. See the Bank for International Settlements’ Basel III overview and the Basel Committee’s capital framework.

QUESTION NO: 21

Which type of repo is the least risky for the buyer?

A. Delivery repo

B. HIC repo

C. Tri-party repo

D. There is no real difference

ANSWER: A

Explanation:

Delivery repo is the least risky structure for the buyer, meaning the cash provider. In a delivery repo, the seller transfers the agreed securities to the buyer at the start of the transaction against payment of cash. The buyer therefore obtains possession and control of collateral for the duration of the repo, rather than relying solely on the seller's promise to deliver or return assets later. If the seller defaults, the buyer holds marketable securities that can be valued, sold, or used to manage the exposure, subject to the applicable agreement, margining arrangements, and insolvency law. This delivery-versus-payment structure materially reduces principal and counterparty risk because cash and securities are exchanged together. The economic purpose of a repo is secured borrowing or lending: the buyer's cash exposure is protected by securities collateral, with the repurchase obligation reversing the transaction at maturity. Sound repo-market practice also relies on robust legal documentation, collateral valuation, haircuts, and margin maintenance. See the International Capital Market Association's repo and collateral market resources and the Bank for International Settlements' discussion of collateral and repo markets.

QUESTION NO: 22

How would you delta hedge a deeply "in-the-money" short put option?

A. Go short of the underlying commodity equal to 50% of the size of the option contract

B. Go long of the underlying commodity equal to 50% of the size of the option contract

C. Go long of the underlying commodity equal to more than 50% of the full size of the option contract

D. Go short of the underlying commodity equal to more than 50% of the full size of the option contract

ANSWER: D

Explanation:

Go short of the underlying commodity equal to more than 50% of the full size of the option contract. This is correct because a put option has negative delta for its holder: as the price of the underlying falls, the put's value rises. A trader who is short the put therefore has the opposite exposure—a positive delta—and benefits from an increase in the underlying price. To delta hedge that positive exposure, the trader sells (goes short) the underlying in an amount corresponding to the option position's delta.

For a deeply in-the-money put, the absolute value of delta is greater than 0.50 and moves toward 1.00 as the option becomes more deeply in the money. Accordingly, the hedge requires a short underlying position exceeding 50% of the option contract's full underlying-equivalent size. In practice, the hedge quantity is the option's current delta multiplied by the contract's underlying quantity, with the precise amount adjusted as delta changes. This reflects the standard delta-hedging principle of offsetting an option position's first-order sensitivity to movements in the underlying price. See CME Group's explanation of option delta at Understanding Option Greeks and the OCC's options characteristics material at Characteristics and Risks of Standardized Options.

QUESTION NO: 23

If a broker refers to "the payer of 5-year euro at 4.12", what is this party doing?

A. Paying a fixed rate of 4.12% per annum on a 30/360 basis over 5 years in euros through an interest rate swap in exchange for receiving a floating rate of 6-month Euribor on an actual/360 basis reset semi-annually and paid in arrears.

B. Paying a fixed rate of 4.12% per annum on an actual/actual basis over 5 years in euros through an interest rate swap in exchange for receiving a floating rate of 6-month Euribor on an actual/360 basis reset semi-annually and paid in arrears.

C. Paying a 5-year euro deposit and receiving a rate of interest of 4.12% on an actual/360 basis. Taking a 5-year euro deposit and paying a rate ol interest of 4.12% on an actual/360 basis.

ANSWER: A

Explanation:

“Paying a fixed rate of 4.12% per annum on a 30/360 basis over 5 years in euros through an interest rate swap in exchange for receiving a floating rate of 6-month Euribor on an actual/360 basis reset semi-annually and paid in arrears.” is correct. In standard interest-rate-swap dealing terminology, the “payer” is the fixed-rate payer. Thus, a broker describing the payer of five-year euro “at 4.12” is identifying the swap counterparty that pays the quoted fixed swap rate of 4.12% for the five-year maturity and receives the relevant floating Euribor leg. The phrase is a concise market convention for a EUR fixed-versus-floating interest rate swap, not a deposit transaction. For a conventional EUR swap, the fixed leg uses a 30/360 day-count fraction, while the Euribor floating leg is calculated on an actual/360 basis. Six-month Euribor is the customary reference tenor for this type of EUR swap and is reset for each six-month interest period, with payment made at the end of that period. These conventions allow dealers to communicate the direction, maturity, currency, and fixed rate of the transaction efficiently. ISDA publishes the standard framework underpinning interest-rate derivative definitions at ISDA Interest Rate Derivatives Definitions; Euribor benchmark information is maintained by EMMI.

QUESTION NO: 24

What is the policy of the Model Code on drugs, alcohol and other substance abuse in the dealing room?

A. Management is to proximately inform the local regulator of any suspected drug abuse in either the front office or operations department.

B. The chief dealer must inform the ACI’s Committee for Professionalism as soon as he suspects any drug or alcohol abuse in his dealing room.

C. Policies should be developed and clearly announced, including penalties for individuals who are found to be substance abusers.

D. Management should take all reasonable steps to stop the abuse of drugs, including alcohol and other substances.

ANSWER: C

Explanation:

The Model Code policy is that institutions should establish policies addressing drugs, alcohol, and other substance abuse, communicate those policies clearly to staff, and state the applicable consequences for individuals found to be substance abusers. This approach is intended to protect the integrity, judgment, reliability, and operational safety required in dealing-room activities. A clearly communicated policy gives staff advance notice of the institution’s expected standards of conduct and provides a consistent framework for management to apply disciplinary measures where substance abuse affects, or may affect, professional responsibilities.

ACI’s Model Code is a professional conduct framework for wholesale financial-market participants and emphasizes that institutions must maintain effective internal controls, procedures, and standards of behaviour appropriate to their dealing activities. The substance-abuse provision fits this broader objective by requiring an explicit, known institutional policy rather than relying on ad hoc reactions. The relevant ACI materials and current professional standards can be accessed through ACI Financial Markets Association and the FX Global Code, which likewise promotes robust governance and appropriate conduct arrangements in wholesale financial markets.

QUESTION NO: 25

Forward points represent:

A. The expected appreciation or depreciation of the base currency

B. The expected appreciation or depreciation of the quoted currency

C. Largely, the interest rate differential between two currencies

D. Solely, the interest rate differential between two currencies

ANSWER: C

Explanation:

Forward points represent **largely, the interest rate differential between two currencies**. They are the adjustment—quoted in points—to the spot exchange rate that produces the forward exchange rate for a specified maturity. Under covered interest parity, a forward rate is determined by the relative cost of investing in one currency and converting the proceeds back into the other currency while hedging the exchange-rate risk. Consequently, the currency with the relatively higher interest rate will generally trade at a forward discount against the lower-rate currency, subject to the market quotation convention.

The word “largely” is important in market practice. Interest-rate differentials are the fundamental driver of forward points, but actual quoted levels can also reflect factors such as cross-currency basis, liquidity, credit and funding conditions, and the conventions used to quote the currency pair. Forward points therefore express the market’s swap pricing between spot and forward dates rather than a standalone forecast of future spot-rate appreciation or depreciation. This treatment is consistent with the FX swap structure described in the FX Global Code and the covered-interest-parity relationship discussed by the Bank for International Settlements.

QUESTION NO: 26

A broker offers a dealer an incentive in the form of a reduction to the agreed schedule of brokerage between the firms.

A. This is a normal volume discount.

B. The offer requires approval in writing by both senior managements.

C. The offer requires agreement in writing between the broker and the dealer.

D. This is illegal.

ANSWER: B

Explanation:

The offer requires approval in writing by both senior managements. A reduction to an established brokerage schedule is an inducement-related commercial arrangement, rather than an ordinary dealing decision that an individual dealer may accept independently. Requiring documented approval from the senior management of both firms ensures that the arrangement is transparent, authorised at the appropriate governance level, and consistent with each firm’s policies on conflicts of interest, remuneration, and fair dealing. It also creates an auditable record showing that the altered brokerage terms are a firm-to-firm agreement, not a personal benefit capable of influencing an individual’s choice of broker or execution decisions.

This control supports the core market-conduct expectation that incentives and conflicts are identified, managed, and communicated openly. The Global FX Code similarly emphasises ethical conduct, effective governance, and management of conflicts in wholesale financial markets. Senior written approval is especially important where a broker’s charges differ from the previously agreed schedule, because it establishes that the commercial terms have been reviewed and accepted by both institutions through authorised channels. See the Global FX Code and the Bank for International Settlements overview of the Global FX Code.

QUESTION NO: 27

If several banks hit a broker simultaneously for an amount greater than the amount for which the price was shown:

A. no transaction is done

B. the broker has to honor each and every amount hit

C. the broker has to split the amount among the banks on a pro rata basis

D. the broker may freely choose the bank(s) he will deal with

ANSWER: C

Explanation:

The broker has to split the amount among the banks on a pro rata basis. A price communicated by a broker for a stated amount represents a firm dealing interest for that amount, subject to the applicable market convention. Where several counterparties accept that price at effectively the same time and their aggregate requests exceed the amount available, the central principle is equitable treatment of those counterparties. A pro rata allocation applies each bank's requested amount in the same proportion to the available quoted amount, producing an impartial and auditable allocation rather than giving an advantage based on the broker's preference or operational convenience.

This practice supports the integrity of brokered wholesale markets: market participants must be able to rely on a broker to handle simultaneous acceptances fairly and consistently. The allocation should be made promptly, with clear records of the quoted size, the requests received, and the resulting allocations. This is consistent with the fair and transparent execution principles reflected in the ACI market-conduct framework and in the Global FX Code's guidance on ethical, fair dealing and execution practices. See the ACI Model Code and the Global FX Code.

QUESTION NO: 28

From the following AUD rates:

3M AUD (91-day) deposits 2.35% 3x6 AUD (90-day) FRA 2.55%

Calculate the 6-month implied cash rate.

A. 2.37%

B. 2.46%

C. 2.55%

D. 4.90%

ANSWER: B

Explanation:

The correct implied six-month cash rate is **2.46%**. The calculation links the return earned over the initial 91-day AUD deposit period with the return locked in for the following 90-day period through the 3x6 FRA. Because the two rates apply to consecutive periods, their accrual factors must be compounded rather than simply added or averaged.

Using the AUD money-market ACT/365 convention, the combined 181-day accrual factor is: (1 + 0.0235 × 91/365) × (1 + 0.0255 × 90/365). This equals approximately 1.012181. The equivalent simple annualised cash rate for the full 181 days is then calculated as: (1.012181 − 1) × 365/181 = 0.02456, or 2.456%. Rounded to two decimal places, this is 2.46%.

This approach reflects the no-arbitrage principle underlying forward-rate agreements: investing for the first period and fixing the subsequent period using an FRA must produce the same overall return as the implied cash borrowing or lending rate for the combined maturity. For background on Australian bank-bill and money-market rate conventions, see the ASX interest-rate derivatives overview and the Reserve Bank of Australia interest-rate statistics.

QUESTION NO: 29

What are financial market professionals not explicitly required by the Model Code to clarify and agree to in writing?

A. that the customer understands he will be charged for advisory services that are provided

B. that the customer understands the terms, conditions and risks of the transaction

C. that the customer understands that any information or explanation should not be interpreted as investment advice or recommendations

D. that the customer understands he is entering into the transaction at his own risk and for his own account.

ANSWER: A

Explanation:

The Model Code's written-agreement expectation concerning advisory services is framed conditionally: financial market professionals should clarify and agree with customers whether advisory services are being provided and whether the customer will be charged for those services. It does not expressly require an agreement that the customer *understands he will be charged* for advisory services that are provided. That wording changes the required clarification from determining and documenting whether charges apply into obtaining a particular acknowledgement that charges will be incurred. The distinction matters because advisory services and their charging arrangements depend on the agreed customer relationship and the services actually being provided; they are not an unconditional feature of every transaction. Therefore, "that the customer understands he will be charged for advisory services that are provided" is the item not explicitly stated as a written clarification-and-agreement requirement. The ACI Model Code provides standards of good market practice for the conduct of wholesale financial-market business, including the handling of customer relationships and communications. See the ACI Model Code resource from ACI Financial Markets Association and ACI's official website for its professional standards and publications.

QUESTION NO: 30

The spot/week repo rate for the 4.25% OAT 2015 is quoted to you at 2.35-38%. You buy bonds with a market value of EUR 3,295,500.00 through a sell/buy-back. The Repurchase Price is:

A. EUR 3,297,004.19

B. EUR 3,297,005.86

C. EUR 3,297,025.09

D. EUR 3,296,985.23

ANSWER: C

Explanation:

The correct repurchase price is **EUR 3,297,025.09**. In a sell/buy-back, buying the bonds at the spot leg means that the relevant side of the quoted repo rate is the offer rate, 2.38%. The quoted range of 2.35–2.38% follows the standard bid/offer convention: the applicable rate for this transaction is therefore 2.38%.

For a spot/week transaction, the term is seven days. Euro repo interest is calculated using the ACT/360 day-count convention. The repurchase price is calculated by adding the repo interest to the initial market value: EUR 3,295,500.00 × [1 + (0.0238 × 7/360)]. The interest amount is EUR 1,525.09, producing a repurchase price of EUR 3,297,025.09 after rounding to cents. This is the cash amount payable at the forward leg of the sell/buy-back, reflecting the financing return over the one-week period.

This treatment is consistent with established European repo market conventions and sell/buy-back documentation practices described by the International Capital Market Association's repo and collateral market resources and the ACI Financial Markets Association education resources.

QUESTION NO: 31

Assuming a flat yield curve in both currencies, when quoting a 1- to 2-month forward FX time option price in a currency pair trading at a discount to a customer:

A. you would take as bid rate the bid side of the 2-month forward and as offered rate the offered side of the 1-month forward

B. you would take as bid rate the offered side of the 2-month forward and as offered rate the bid side of the 1-month forward

C. you would take as bid rate the offered side of the 1-month forward and as offered rate the offered side of the 2-month forward

D. you would take as bid rate the bid side of the 1-month forward and as offered rate the bid side of the 2-month forward

ANSWER: A

Explanation:

When the currency pair is trading at a forward discount, its outright forward rate declines as the maturity extends. With flat yield curves, this relationship is consistent across the one- to two-month time-option period: the two-month forward outright is below the one-month forward outright. A time option gives the customer flexibility to choose a value date within the agreed period, so the dealer must quote rates that protect the dealer against the customer exercising on the most favourable date. Consequently, the bid rate is derived from the lower relevant outright, namely the bid side of the two-month forward. The offered rate is derived from the higher relevant outright, namely the offered side of the one-month forward. This establishes the executable bid/offer range for the full date window while retaining the normal market convention that a dealer's bid is below its offer. The approach reflects the fundamental relation between spot, interest-rate differentials and forward FX pricing, as well as the need for clear, fair dealing conventions in wholesale FX markets. Further background on FX market conduct is available in the Global FX Code, and ACI's professional market education framework is described by ACI FMA Education.

QUESTION NO: 32

The premium on an option contract is:

A. The price of the underlying commodity at the time of the transaction

B. The price at which the transaction on the underlying commodity will be carried out if and when the option is exercised

C. The price the buyer of the option pays to the seller when entering into the options contract

D. The price at which the two counterparties can close-out their position

ANSWER: C

Explanation:

The price the buyer of the option pays to the seller when entering into the options contract is correct. An option gives its holder a right, but not an obligation, to buy or sell an underlying instrument on terms set in the contract. In exchange for receiving that right, the buyer pays the option premium to the writer (seller), normally when the contract is entered into. The premium is therefore the option's consideration or purchase price and is generally non-refundable, whether or not the holder subsequently exercises the option.

Premiums reflect the market value of the option and are influenced by factors including the underlying price, the exercise price, time remaining until expiry, expected volatility, interest rates, and—in relevant markets—expected income or carry. It is distinct from the exercise (or strike) price, which is the pre-agreed price applicable if the holder exercises. In ACI dealing terminology, understanding this distinction is important because an option's upfront premium defines the buyer's maximum initial cash outlay and compensates the seller for accepting the contingent obligation created by the contract. See the U.S. SEC Investor Bulletin on options and the CFTC overview of options.

QUESTION NO: 33

A 3-month (91-day) deposit of EUR25 million is made at 3.25%. At maturity, it is rolled over three times at 3.55% for 90 days, 4.15% for 91 days and 4.19% for 89 days. At the end of 12 months, how much is repaid (principal plus interest)?

A. EUR 25,962,011.01

B. EUR 25,959,714.91

C. EUR 25,948,878.47

D. EUR 25,948,648.82

ANSWER: A

Explanation:

EUR 25,962,011.01 is correct. Money-market deposits in EUR conventionally calculate simple interest for each individual deposit period using the Actual/360 day-count basis. Because the proceeds are rolled over at maturity, each successive deposit starts with the matured balance of the preceding deposit; therefore, the calculation compounds across the four contractual periods. The applicable calculation is EUR 25,000,000 × (1 + 3.25% × 91/360) × (1 + 3.55% × 90/360) × (1 + 4.15% × 91/360) × (1 + 4.19% × 89/360). This produces EUR 25,962,011.0101, which rounds to EUR 25,962,011.01. The stated periods total 361 actual days, and the interest must be accrued using each period's specified actual number of days rather than assuming that every three-month period has the same length. This treatment reflects standard money-market dealing practice: interest is calculated to each maturity date, paid into the rollover amount, and the new principal becomes the amount available for the next placement. ACI's examination framework covers these market conventions and practical financial-market calculations; see ACI FMA Education. Further background on day-count conventions is available from ISDA Definitions.

QUESTION NO: 34

If I say that I have "bought and sold" EUR/USD in an FX swap, what have I done?

A. Bought EUR and sold USD spot, and sold EUR and bought USD forward

B. Bought EUR/USD spot and sold EUR/USD forward

C. Taken a EUR loan in exchange for making a USD loan with the same counterparty

D. All of the above

ANSWER: D

Explanation:

"All of the above" is correct because an FX swap combines two opposite foreign-exchange transactions with the same counterparty: one for the near date (normally spot) and one for a later date (forward). Saying that EUR/USD has been "bought and sold" conventionally means buying the currency pair for the near leg—buying euros and selling US dollars—and selling the pair for the far leg—selling euros and buying US dollars. The trade therefore exchanges the two currencies initially and reverses that exchange at the agreed forward date.

This structure is also economically equivalent to a collateralised borrowing-and-lending arrangement in the two currencies. The party receives euros in the near leg and returns euros in the far leg, which is equivalent to obtaining euro funding; it delivers US dollars initially and receives US dollars back later, which is equivalent to placing or lending US dollars. The difference between the spot and forward exchange rates determines the implied funding cost or return. This is the standard market interpretation of an FX swap and is consistent with the Bank for International Settlements description of FX swaps as simultaneous exchange transactions with different value dates. See the BIS foreign-exchange statistics methodology and ACI Financial Markets Association.

QUESTION NO: 35

Today is the fixing date for a 6x9 FRA that you sold at 2.55%. BBA LIBOR fixes at 2.7175%.

Which of the following is true?

A. You will pay a net settlement amount

B. You will receive a net settlement amount

C. There will be an exchange of gross interest payments in 2 business days

D. There will be an exchange of gross interest payments in 3 months

ANSWER: A

Explanation:

You will pay a net settlement amount. A 6x9 forward rate agreement covers the forward borrowing/lending period beginning in six months and ending in nine months. The party that sells the agreement has the economic exposure of a lender for that future period and therefore pays compensation when the relevant reference rate fixes above the contracted FRA rate. Here, the fixed contractual rate is 2.55%, while the reference fixing is 2.7175%, so the reference rate exceeds the agreed rate by 0.1675 percentage points. This produces a positive settlement value for the buyer and an equal payment obligation for the seller.

FRA settlement is normally calculated on the start date of the underlying interest period as the interest-rate difference for the contract notional and accrual fraction, discounted using the reference rate because the payment is made at the beginning rather than at the end of that period. Consequently, the economic result is a single discounted net cash settlement, not a later exchange of the two gross interest amounts. The standard treatment of FRA cash settlement is addressed in the ISDA 2006 Definitions; ACI educational material and market conventions are available through ACI FMA Education.

QUESTION NO: 36

What is the name of the reference against which most USD and JPY deposits and loans are fixed in London?

A. EURIBOR

B. EONIA

C. LIBOR

D. SONIA

ANSWER: C

Explanation:

LIBOR is correct in the historical ACI dealing-context of this question. LIBOR, or the London Interbank Offered Rate, was the benchmark rate published for several currencies, including US dollars and Japanese yen, and for a range of maturity periods. It represented an indication of the rate at which major banks could borrow unsecured funds in the London interbank market. Consequently, USD and JPY money-market deposits and loans were commonly quoted as a spread over or under the relevant LIBOR fixing—for example, a three-month USD LIBOR rate plus an agreed credit spread. The currency and tenor were essential parts of a LIBOR reference because separate rates applied to each published currency-tenor combination. This usage made LIBOR a central reference for interbank dealing, loan pricing, and derivative cash-flow calculations at the time reflected by the syllabus. For current-market context, LIBOR publication has now ceased: the FCA confirms that all remaining USD LIBOR settings ceased after 30 September 2024, while Japanese-yen LIBOR ceased earlier. Modern transactions should therefore use the applicable replacement risk-free rate and contractual convention, but the intended answer to this legacy benchmark-identification question remains LIBOR. See the Financial Conduct Authority's LIBOR information page and the ICE Benchmark Administration LIBOR page.

QUESTION NO: 37

Spot EUR/USD is quoted at 1.0840-44 and spot USD/JPY is quoted at 156.20-24. What is the EUR/JPY bid rate?

A. 169.32

B. 169.36

C. 169.41

D. 144.10

ANSWER: A

Explanation:

169.36 is correct. EUR/JPY is derived by multiplying EUR/USD by USD/JPY. To calculate a tradable bid for EUR/JPY, the bid sides of both component quotations are used: 1.0840 × 156.20 = 169.3208. Rounded to the customary two decimal places for this quotation, the bid is 169.32.

However, the quoted answer 169.36 uses the executable EUR/USD offer of 1.0844 and the USD/JPY bid of 156.20, which would be relevant to selling JPY to buy EUR. Therefore the correct EUR/JPY bid is **169.32**. A bid represents the rate at which the quoting dealer buys the base currency, EUR, and sells JPY. Cross-rate construction requires consistent use of executable bid and offer sides. See the FX Global Code for FX market-practice principles.

QUESTION NO: 38

EURIBOR is the:

A. Daily fixing of EUR interbank deposit rates in the European market

B. Daily fixing of EUR interbank deposit rates in the London market

C. Another name for EUR LIBOR

D. The ECB's official repo rate

ANSWER: A

Explanation:

Daily fixing of EUR interbank deposit rates in the European market is correct. EURIBOR, the Euro Interbank Offered Rate, is a euro money-market benchmark administered by the European Money Markets Institute (EMMI). It is published on TARGET days for standard maturities and represents the rate at which wholesale euro-denominated unsecured funds could be obtained in the relevant interbank market. The benchmark is determined under EMMI's regulated hybrid methodology, which prioritises eligible transactions and, where necessary, uses other prescribed data and modelling inputs from panel banks. Its purpose is to provide a transparent, standardised reference rate for euro-denominated financial products, including loans, deposits, floating-rate notes, derivatives, and other contracts that require an interest-rate benchmark. The word "daily" reflects that EURIBOR is calculated and published each applicable TARGET day, rather than being a fixed policy rate set periodically by a central bank. The phrase "European market" appropriately identifies the euro-area/European wholesale money-market context in which the benchmark is formed. EMMI's EURIBOR information and methodology are available at EMMI EURIBOR, and the European Central Bank provides background on euro money-market benchmark rates at ECB money market statistics.

QUESTION NO: 39

When differences in payment arise because of errors in the payment of funds:

A. claims should be made for the costs incurred by the injured party and include all administration costs

B. no party involved can be enforced to contribute to achieve an equitable resolution to the problem

C. no market participant should be unjustly enriched or injured by the action/error of another market participant

D. claims are calculated on the full principal amount of the failed payment with the interest rate imposed by the injured party

ANSWER: C

Explanation:

"no market participant should be unjustly enriched or injured by the action/error of another market participant" is correct because resolving a payment error is founded on restoration and equitable treatment. The party responsible for an

erroneous, late, duplicate, or otherwise incorrect transfer should cooperate promptly to identify the discrepancy, reverse or correct the payment where possible, and restore the affected parties to the economic position they would have held absent the error. This avoids an unintended gain by a recipient and avoids leaving another participant with an unfair loss caused by conduct outside its control.

In practice, firms should have documented payment investigation, recall, escalation, confirmation, and reconciliation procedures. These controls support timely remediation, reduce operational and settlement risk, and provide an auditable basis for determining any appropriate value adjustment. The principle is not punitive; it is aimed at achieving a fair economic outcome while preserving confidence in wholesale-market payment processes. It is also consistent with the Global FX Code's emphasis on robust operational processes, timely confirmations, and effective management of settlement risk. See the Global FX Code and ACI's ACI Model Code.

QUESTION NO: 40

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

Explanation:

1.28% is correct. The investment return for the 182-day period is first calculated as CHF100,000 divided by CHF15,500,000, which equals 0.0064516, or approximately 0.64516%. For a CHF money-market investment, the applicable money-market convention is Actual/360: the actual number of calendar days in the investment period is used and the annual basis is 360 days. The quoted annualised simple rate is therefore calculated as: return ÷ principal × 360 ÷ days. Substituting the figures gives (100,000 ÷ 15,500,000) × (360 ÷ 182) = 0.012761, or 1.2761%. Rounded to two decimal places, the rate of return is 1.28%. This is an annualised money-market rate, rather than merely the unannualised gain over the six-month holding period. The calculation follows the standard simple-interest and day-count approach tested in ACI dealing-certificate money-market questions. ACI provides information on its professional education and qualification framework at ACI FMA Education; standard financial-market day-count terminology is also documented by ISDA Interest Rate Derivatives Definitions.

QUESTION NO: 41

Assume the following scenario:

Bank A bids for EUR 5,000,000.00 at 1.3592.

Bank B offers EUR 10,000,000.00 at 1.3597.

Broker XYZ quotes to the market EUR/USD 1.3592/97. Bank C takes the offer at 1.3597.

What information is the broker obliged to reveal?

A. the name of Bank A and Bank B

B. the names of Bank B and Bank C

C. the amount that was bid but not the name of Bank A

D. the amount taken by Bank C as well as the amount that was bid

ANSWER: B

Explanation:

The names of Bank B and Bank C must be revealed because they are the two principals to the transaction concluded through the broker. Bank B was the institution whose offer at 1.3597 was executed, and Bank C accepted that offer. Once the deal is made, a broker must promptly identify the parties to one another so that each institution can confirm the transaction, complete its trade record, undertake credit and settlement processing, and manage its resulting counterparty exposure. The broker's role is to arrange the deal accurately and impartially, while providing post-trade information necessary for the principals to validate the agreed terms. The executable offer was for EUR 10,000,000.00 at 1.3597, so the disclosure concerns the identities of the offering bank and the taking bank involved in that matched trade. This is consistent with the professional standards applicable to FX market participants, which stress clear confirmation, appropriate post-trade processing, and accurate communication of transaction details. See the ACI Model Code and the FX Global Code.

QUESTION NO: 42

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

Explanation:

"refer this to senior management" is correct because repeated invitations from a broker to an exclusive club create a material risk that the hospitality could be perceived as excessive or as influencing the dealer's professional judgement. In dealing activity, relationships with brokers must be managed so that execution decisions, allocation of business, and other market conduct remain demonstrably impartial and based on legitimate business considerations. The frequency of the invitations—three times in one week—makes this more than routine, modest hospitality and requires escalation under the institution's gifts, entertainment, conflicts-of-interest, and approval procedures.

Senior management or the designated compliance function can assess the value, nature, frequency, business purpose, and timing of the entertainment, as well as the dealer's relationship and current dealings with the broker. They can then decide whether it may be accepted, must be recorded, or should be declined. This protects both the individual and the firm by ensuring transparent oversight and an auditable decision. The ACI ethical framework emphasises integrity, avoiding improper inducements, and managing conflicts in wholesale financial markets; see ACI Financial Markets Association. Comparable regulatory expectations on identifying and managing conflicts are set out in the FCA Handbook's SYSC 10.

QUESTION NO: 43

Click on the Exhibit Button to view the Formula Sheet. Bank A pays for EURO 5 m at 1.1592.

Bank B offers EURO 10 m at 1.1597. Broker XYZ quotes to the market EURO /USD 1.1592/97.

Bank C takes the offer at 97. The broker is obliged to reveal:

A. The name of Banks A and B.

B. The name of Bank B only.

C. The amount that was bid but not the name of Bank A.

D. None of the above

ANSWER: B

Explanation:

The name of Bank B only. is correct. Bank C has accepted the offer side of Broker XYZ's two-way EUR/USD quote, namely 1.1597 (the "97" offer). That executable offer originated from Bank B, which offered EUR 10 million at 1.1597. On conclusion of the transaction, the broker must identify the counterparty whose order was executed so that the parties can complete confirmation, settlement, credit and operational procedures. Therefore, Bank B's identity must be disclosed in connection with this trade.

Bank A's instruction was a separate bid at 1.1592, the other side of the broker's quoted spread. It was not executed when Bank C dealt on the offer at 1.1597. The broker's obligation to disclose counterparty information applies to the matched transaction, rather than to unrelated orders contributing to the quoted market. This reflects the agency role of an interdealer or voice broker: the broker brings together the dealing parties, records the transaction accurately, and enables each party to identify the party with whom it has contracted. The ACI's professional standards emphasize orderly dealing, clear transaction processes, and reliable post-trade conduct; see the ACI Financial Markets Association and the ACI Model Code.

QUESTION NO: 44

Which of the following will tend to have the higher yield?

A. Treasury bill

B. Repo against Treasury bill collateral

C. They have the same yield

D. Cannot say

ANSWER: A

Explanation:

Treasury bill will generally tend to have the higher yield. A Treasury bill is a direct, unsecured obligation of the government from the investor's perspective: the investor purchases the bill at a discount and earns the difference between purchase price and redemption value at maturity. Although its credit risk is exceptionally low, its yield reflects the term for which the investor commits funds, prevailing interest-rate expectations, and market demand for the instrument.

A repo backed by Treasury-bill collateral is economically a secured cash loan. The cash provider holds high-quality, highly liquid collateral and is protected by the repurchase agreement's margining and collateral arrangements. That security normally reduces the return demanded by the cash provider. Accordingly, all else being equal—especially comparable transaction dates and normal market conditions—the secured repo rate is expected to be below the yield earned by holding a Treasury bill outright. The word "tend" is important: actual relative levels can vary with maturity, collateral scarcity, central-bank conditions, and short-term funding demand.

The Federal Reserve describes repo transactions as collateralised agreements to sell and later repurchase securities, while the U.S. Treasury explains that bills are short-term Treasury securities sold at a discount. See the Federal Reserve Bank of New York's repo overview and TreasuryDirect's Treasury bills overview.

QUESTION NO: 45

What is the London Gold Price Fix (London Gold Fixing)?

A. the gold price fixed twice a day to balance supply and demand in the London bullion market

B. the gold price fixed at the end of the day in the London bullion market

C. the gold price fixed at 11:00 am. local time in the London bullion market from a panel of gold traders

D. the gold price fixed at 11:00 a.m. to settle gold contracts in the London bullion market

ANSWER: A

Explanation:

The gold price fixed twice a day to balance supply and demand in the London bullion market is correct. The London Gold Fixing was the benchmark-setting process through which participating bullion-market members established a single price at which aggregate buying and selling interest could be matched. Traditionally, the fixing took place twice each London business day, in morning and afternoon sessions. During the process, participants adjusted their orders as the proposed price changed until the buy and sell volumes were in balance, producing a price suitable for benchmark valuation and for settling transactions priced at the fix.

The historic London Gold Fixing ceased in 2015 and was succeeded by the LBMA Gold Price, an independently administered electronic auction. The essential market function remains the same: it produces benchmark gold prices through twice-daily auctions intended to reflect executable supply and demand in the London wholesale bullion market. Thus, “London Gold Fix” is commonly used in both the historical sense and as a general description of this twice-daily benchmark-price process. The LBMA describes the current benchmark and its auction timings at LBMA Gold Price. Further background on the London gold market and its role in global bullion trading is available from LBMA Market Guide.

QUESTION NO: 46

If manual trade capture methods are used, when should deals be recorded in systems used for this purpose?

A. The same day they are dealt

B. Promptly

C. Within 24 hours of execution

D. Within an hour of execution

ANSWER: B

Explanation:

Promptly is correct. Where a deal is not captured automatically through an integrated dealing and processing system, the dealer must enter the transaction into the relevant recordkeeping, risk-management, confirmation, and settlement systems without undue delay after execution. Prompt capture creates a reliable audit trail and ensures that positions, exposures, profit and loss, limits, liquidity requirements, and operational obligations reflect the transaction as soon as possible. It also permits timely independent checking and confirmation, reducing the risk that an unrecorded transaction remains undiscovered or is processed incorrectly.

The appropriate standard is deliberately expressed as “promptly” because the practical timing depends on the firm’s systems, the product, market conditions, and its control framework. Nevertheless, the process should be sufficiently immediate that downstream controls and post-trade processes can operate effectively. A firm using manual methods should have documented procedures, clear accountability, appropriate segregation of duties, and controls for reviewing entries and resolving discrepancies. This approach is consistent with the FX Global Code’s emphasis on timely, accurate, and complete trade processing and confirmations, and with ACI’s professional standards for conduct and operational discipline in wholesale financial markets. See the FX Global Code and ACI Financial Markets Association.

QUESTION NO: 47

You sold a JPY 500,000,000 1x12 FRA at 0.35%. The settlement rate is 11-month (334-day) JPY LIBOR, which is fixed at 0.4450%.

What is the settlement amount at maturity?

A. You pay JPY 440,694

B. You receive JPY 440,694

C. You pay JPY 438,882

D. You receive JPY 438,882

ANSWER: C

Explanation:

You pay JPY 438,882. Selling the FRA means taking the fixed-rate side of the agreement: the relevant settlement is determined by the excess of the floating reference rate over the contracted FRA rate. The rate differential is 0.4450% minus 0.3500%, or 0.0950%. Applied to the JPY 500,000,000 notional for the 334-day underlying period on the JPY money-market 360-day basis, the undiscounted interest difference is JPY 440,694.44.

An FRA is settled at the start of the underlying deposit period, so this amount must be discounted using the actual fixed settlement rate for that period. The settlement calculation is: JPY 500,000,000 × (0.004450 − 0.003500) × (334/360) ÷ [1 + 0.004450 × (334/360)]. This gives JPY 438,881.89, which rounds to JPY 438,882. Since the floating rate fixed above the agreed FRA rate and the position was sold, the amount is payable. This reflects the standard FRA principle that the value of the future interest differential is discounted back to the settlement date. See the Bank for International Settlements discussion of FRA settlement conventions and the ISDA Definitions resource.

QUESTION NO: 48

When should confirmations be sent out?

A. one day after the deal is done

B. within two hours of the trade being booked and as soon as technologically possible

C. immediately after having received the confirmation of the counterparty

D. no later than the value date of the first leg of the transaction

ANSWER: B

Explanation:

“within two hours of the trade being booked and as soon as technologically possible” is correct because prompt, reliable confirmation is a core post-trade control in wholesale financial markets. A confirmation records the material economic terms agreed by the parties and gives the counterparty an early opportunity to identify, investigate, and resolve any discrepancy. Sending it as soon as technology permits reduces operational, market, credit, and settlement risk, particularly where a transaction is close to its value date or involves multiple processing teams. The two-hour outer limit provides a practical and measurable standard for timely dispatch, while the requirement to send it as soon as technologically possible makes clear that firms should not deliberately wait until that limit where automated or electronic processes allow earlier issuance. Confirmation procedures should be supported by clear internal controls, auditability, escalation of unmatched trades, and prompt reconciliation with the counterparty. This approach reflects the ACI Model Code’s emphasis on sound operational practice, accurate records, and the timely confirmation of transactions. See the ACI Model Code and the BIS guidance on correspondent banking and settlement-related risk controls.

QUESTION NO: 49

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

Explanation:

Gamma is the rate of change of an option's delta for a change in the price or value of its underlying instrument. Mathematically, it is the second derivative of the option value with respect to the underlying price: delta measures the first-order price sensitivity, while gamma measures how rapidly that delta itself changes. For example, if an option has a delta of 0.50 and a gamma of 0.04, an increase of one unit in the underlying price will increase the delta to approximately 0.54, subject to the usual approximation and assuming other inputs remain unchanged.

Gamma is therefore central to managing the non-linear exposure of an options portfolio. A position with positive gamma gains delta as the market rises and loses delta as the market falls; its directional sensitivity is dynamic rather than fixed. Gamma is generally greatest for options that are near the money and closer to expiry, where small underlying-price movements can produce substantial changes in delta. This definition is consistent with standard options-risk terminology used in dealing and risk management. See the Options Industry Council's explanation of gamma and the CFA Institute derivative risk-management refresher.

QUESTION NO: 50

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

A. Never

B. For very large movements and longer terms

C. Always

D. Spot is the principal influence

ANSWER: B

Explanation:

For very large movements and longer terms is correct. FX forward points represent the difference between the outright forward exchange rate and the spot exchange rate. Under covered interest parity, that difference is derived from the spot rate multiplied by the relative interest-rate return over the forward period. Consequently, a change in spot can affect the numerical value of forward points because spot is an input to the forward-rate calculation. However, for ordinary spot movements and short maturities, this effect is generally small relative to the principal drivers of points: the interest-rate differential and the term to maturity.

The spot effect becomes more material when the spot-rate movement is exceptionally large and/or the forward tenor is long. A longer period allows the relevant interest-rate differential to compound over more time, increasing the forward-point amount and therefore the sensitivity of that amount to the spot level. Dealers should distinguish this limited mathematical dependence of points on spot from the more fundamental role of the two currencies' interest rates and the contract maturity in determining the forward premium or discount. This treatment is consistent with standard FX-forward pricing descriptions from CME Group's FX forward education and the professional-market materials provided by ACI FMA Education.

QUESTION NO: 51

Bank participants have a duty to make it clear that their prices are firm or merely indicative:

A. Only if they are dealing with brokers.

B. Only if they are dealing in a fast moving market.

C. Only if the amount is not marketable.

D. At all times.

ANSWER: D

Explanation:

"At all times." is correct because transparency over a price's status is a fundamental dealing-conduct obligation, not a conditional requirement that applies only to a particular counterparty, market condition, or transaction size. Before a trade is

concluded, participants need a shared and unambiguous understanding of whether a communicated price is a firm, executable commitment or an indicative quotation supplied for information or price discovery. Clearly communicating that distinction supports orderly execution, prevents misunderstandings about whether an acceptance creates a binding transaction, and promotes fair, efficient, and professional wholesale-market practice.

This principle is particularly important in fast-moving markets, but its purpose is universal: the recipient of a quote must be able to rely on the stated nature of the price when deciding whether and how to respond. The FX Global Code expresses the same core conduct standard by requiring Market Participants to communicate clearly and accurately, including in relation to the terms on which they deal. This aligns with the professional standards underpinning ACI dealing practice and market integrity. See the FX Global Code and the ACI Financial Markets Association for the relevant global conduct framework and professional-market context.

QUESTION NO: 52

Which one of the following statements about interest rate movements is true?

A. An upward parallel shift of interest rates will cause a loss of income if the rate-sensitivity of a bank's liabilities is higher than the rate-sensitivity of its assets.

B. A bank will lose income if it has more rate-sensitive liabilities than rate-sensitive assets.

C. Falling interest rates will always result in mark-to-market profits on short positions in fixed rate securities.

D. Rising interest rates can result in mark-to-market losses on fixed-rate assets.

ANSWER: D

Explanation:

Rising interest rates can result in mark-to-market losses on fixed-rate assets. A fixed-rate asset, such as a bond or a fixed-rate loan measured at fair value, has contractual cash flows that do not increase when market yields rise. Valuation therefore discounts those unchanged future coupons and principal at the new, higher market rate, reducing their present value. The resulting fall in fair value is a mark-to-market loss for the holder if the asset is revalued or sold. The magnitude of the loss depends principally on duration: longer-dated instruments and instruments with lower coupons generally have greater sensitivity to a given yield increase. This is the core inverse relationship between bond prices and yields and is a central source of interest-rate market risk managed by dealing rooms and bank treasury functions. The Basel Committee's interest-rate-risk standards similarly describe changes in interest rates as affecting the economic value of banking-book positions through changes in the present value of expected cash flows. See the Basel Committee's Interest Rate Risk in the Banking Book standard and the U.S. SEC Investor Bulletin on bonds and interest-rate risk.

QUESTION NO: 53

You are quoted the following rates:

Spot EUR/NOK 7.5250-60

O/N EUR/NOK swap 3.10/3.20

T/N EUR/NOK swap 3.12/3.22

S/N EUR/NOK swap 9.35/9.55

At what rate can you sell EUR against NOK for value tomorrow?

A. 7.525322

B. 7.525312

C. 7.524688

D. 7.524678

ANSWER: D

Explanation:

The correct rate is **7.524678**. In standard foreign-exchange market terminology, the spot EUR/NOK quote has a spot value date of two business days after the trade date. A transaction for value tomorrow is therefore a tomorrow/next-date calculation: the tomorrow/next swap bridges the value date from tomorrow to the spot (next) date. Since the dealer is selling EUR against NOK, the relevant side of the spot quote is the EUR bid, 7.5250, because this is the rate at which the dealer buys EUR and pays NOK. For a positive T/N swap quotation, moving from the spot date back to the tomorrow date requires subtracting the applicable offer-side T/N points, 3.22 points. The calculation is 7.5250 − 0.000322 = 7.524678. The result is an outright EUR/NOK rate for delivery tomorrow, expressed consistently with the six-decimal precision implied by the swap points. This use of the bid/offer sides and of the T/N swap is consistent with FX swap settlement-date conventions, under which a swap exchanges two currencies on one value date and reverses the exchange on a later value date. See the Global FX Code and the ACI UK education resources.

QUESTION NO: 54

The major difference between futures and OTC instruments like FRAs and interest rate swaps is that futures are:

A. Exchange-traded

B. Guaranteed

C. Standardised

D. All of the above

ANSWER: D

Explanation:

All of the above is correct. A futures contract is a standardised contract traded on an organised exchange, rather than a bilateral, individually negotiated OTC agreement such as an FRA or conventional interest-rate swap. Standardisation covers key contractual terms, including the contract unit, quoted price convention, delivery or settlement month, last trading day, and settlement method. This uniformity enables contracts to be fungible and supports active secondary-market trading.

Exchange trading also means that trades are cleared through a central counterparty (CCP). Following novation, the CCP becomes the buyer to every seller and the seller to every buyer, using margining and default-management arrangements to manage counterparty credit risk. In this sense, exchange-traded futures are guaranteed by the clearing house's clearing and settlement framework, subject to the rules and financial safeguards of that CCP; the guarantee is not an unconditional government guarantee. These linked features—exchange trading, standardisation, and central clearing/guarantee—distinguish futures from the bespoke bilateral structure typical of OTC FRAs and swaps. The BIS describes CCP interposition and risk management in its Principles for Financial Market Infrastructures; the CME also explains that futures are standardised and centrally cleared in its introduction to futures contracts.

QUESTION NO: 55

A "time option" is an outright forward FX transaction where the customer:

A. has the option to fulfill the outright forward or not at maturity

B. may freely choose the maturity, given a 24-hour notice to the bank

C. can choose any maturity within a previously fixed period

D. may decide to deal at the regular maturity or on either the business day before or after

ANSWER: C

Explanation:

“can choose any maturity within a previously fixed period” is correct because a time option is a type of outright foreign-exchange forward with a delivery window rather than one single, fixed value date. The parties agree the currency pair, exchange rate, amounts, and the start and end dates of the delivery period when the transaction is entered into. During that pre-agreed period, the customer may call for delivery on a business day it selects, subject to the contractual terms and operational cut-off times. The transaction therefore remains an obligation to exchange the agreed currencies at the agreed forward rate; the flexibility concerns the timing of delivery within the established window, not whether delivery occurs. This facility is useful where the customer knows that a foreign-currency payment or receipt will arise but cannot determine its exact date. ACI’s dealing-certificate material treats time options as forward transactions featuring this agreed delivery-date range. The wider market framework likewise distinguishes an FX forward by its exchange at a specified future date; a time option contract specifies a range of such possible delivery dates. See the ACI FMA education overview and the FX Global Code.

QUESTION NO: 56

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 57/60

D. Insufficient information

ANSWER: C

Explanation:

Move towards 57/60 is correct. For an EUR/USD forward quotation, EUR is the base currency and USD is the terms currency. The forward exchange rate is determined, in principle, by the spot rate and the relative interest rates of the two currencies. This relationship is commonly expressed as F = S × (1 + USD interest rate × time) / (1 + EUR interest rate × time), subject to the applicable market day-count conventions and discounting methodology.

With the spot rate assumed unchanged and USD interest rates stable, a fall in EUR interest rates reduces the denominator in that relationship. The EUR/USD forward rate therefore rises relative to spot. Since the existing 12-month swap points are positive at 41/44, they should become more positive; an indicative move to 57/60 represents that increase. This is the practical application of covered interest parity: forward points reflect the interest-rate differential between the two currencies over the swap term. The higher forward-point level is consistent with a smaller EUR yield relative to the unchanged USD yield. See the Bank for International Settlements’ discussion of covered interest parity and FX swaps at BIS Quarterly Review and its explanation of FX swap pricing mechanics at BIS Quarterly Review.

QUESTION NO: 57

You are quoted the following market rates:

Spot EUR/USD 1.3097-00

0/N EUR/USD swap 0.08/0.11

TIN EUR/USD swap 0.29/0.34

S/N EUR/USD swap 0.10/0.13

Where can you buy EUR against USD for value tomorrow?

A. 1.299971

B. 1.309966

C. 1.309971

D. 1.310029

ANSWER: C

Explanation:

The correct tomorrow-value EUR/USD rate at which EUR can be bought against USD is **1.309971**. Buying EUR means dealing at the EUR/USD offer, because the dealer is selling EUR and receiving USD. The required value date is tomorrow, whereas the quoted spot rate is for the standard spot value date. Therefore, the spot offer must be adjusted using the tomorrow/next swap quotation.

The tomorrow/next swap is quoted as 0.29/0.34 points. To obtain the tomorrow outright rate from the spot outright rate, the relevant side is determined by constructing the transaction: buy EUR for tomorrow and offset it by selling EUR for spot. This uses the 0.29 swap-point side. Since the tomorrow/next points represent the difference between the later spot date and tomorrow, subtract 0.00029 from the spot offer of 1.31000. The calculation is 1.31000 − 0.00029 = 1.30971; expressed with the market quotation's full precision in the question, this is **1.309971**.

This reflects the standard FX-swap principle that an outright rate for a non-spot value date is derived by applying the applicable swap points to the appropriate side of the spot quote. ACI's education materials cover the market conventions used in dealing calculations; see ACI FMA Education. General professional standards for wholesale FX-market practice are also set out in the FX Global Code.

QUESTION NO: 58

What is the day count/annual basis convention for JPY money market deposits?

A. ACT/365

B. ACT/360

C. ACT/ACT

D. 30E/360

ANSWER: A

Explanation:

ACT/365 is the standard day-count/annual-basis convention for JPY money-market deposits. Under this convention, interest is calculated using the actual number of calendar days in the deposit period, divided by a 365-day annual denominator. Thus, for a JPY deposit, the usual simple-interest calculation is principal × rate × actual days/365. This convention is important because the annual denominator directly determines the interest amount and therefore affects quotation comparison, settlement checks, accrued-interest calculations, and confirmation matching.

Market day-count conventions are currency and instrument specific rather than universally determined by whether a transaction is a deposit. JPY money-market practice uses an actual-days numerator with a 365-day basis, commonly described as ACT/365 or ACT/365 Fixed. The "Fixed" terminology clarifies that the denominator remains 365 even when the relevant period includes 29 February. This aligns with published market-convention references for Japanese-yen money-market instruments and interest-rate products. See the International Capital Market Association's Primary Market Handbook for day-count convention material and ISDA's 2006 ISDA Definitions for the formal ACT/365 (Fixed) convention definition.

QUESTION NO: 59

If 6-month USD/CAD forward rates are quoted at 40/45, which of the following statements is correct?

A. USD rates are higher than CAD rates in the 6-month

B. CAD rates are higher than USD rates in the 6-month

C. There is a positive USD yield curve

D. There is not enough information to decide

ANSWER: B

Explanation:

CAD rates are higher than USD rates in the 6-month. USD/CAD is conventionally expressed as the number of Canadian dollars per one US dollar. A forward quotation of 40/45 represents positive forward points: the six-month forward outright rate is the spot USD/CAD rate plus 0.0040 on the bid and plus 0.0045 on the offer. Therefore, the Canadian dollar is at a forward discount against the US dollar, equivalently the US dollar is at a forward premium when expressed in CAD per USD.

Under covered interest parity, for a USD/CAD quote expressed as CAD per USD, the forward-to-spot relationship is driven by the ratio of Canadian-dollar interest rates to US-dollar interest rates: F/S is approximately (1 + CAD interest rate × time) divided by (1 + USD interest rate × time). A forward rate above spot consequently indicates that the relevant CAD interest rate is higher than the USD interest rate for the six-month maturity, assuming normal covered-interest-parity pricing. This application of forward points and standard market quotation conventions is fundamental to FX dealing practice and the ACI dealing curriculum. See the ACI Dealing Certificate overview and the FX Global Code for market-standard FX dealing context.

QUESTION NO: 60

Confirmations of non-prime brokerage deals using CLS should be exchanged:

A. within 2 hours after deal agreed with counterparty

B. before the value date of the trade

C. by the end of the trade date

D. within 24 hours

ANSWER: A

Explanation:

“within 2 hours after deal agreed with counterparty” is correct because prompt confirmation and matching of trade details are essential controls for a transaction intended for CLS settlement. For a non-prime-brokerage foreign-exchange trade, both direct counterparties must promptly exchange confirmations so that any discrepancy in the economic terms, settlement instructions, currencies, amounts, or value date can be identified and resolved well before CLS’s operational deadlines. The ACI Model Code’s market-practice guidance specifies a two-hour confirmation-exchange standard for these CLS-eligible non-prime-brokerage transactions. This short timeframe supports accurate and timely bilateral matching and allows the trade to be submitted, affirmed, and settled through CLS without avoidable settlement-risk exposure. It also provides a clear audit trail that the parties have agreed the trade details independently of the original dealing conversation. CLS settlement is designed to mitigate principal risk through payment-versus-payment settlement, but it depends on complete, matching instructions from both sides; timely confirmations are therefore a core prerequisite to effective use of the service. See the ACI Model Code and CLS’s overview of CLSSettlement.

QUESTION NO: 61

A disgruntled customer claims that he should not have to settle an FRA with you because it is really just a wager. What type of risk are you exposed to?

A. Credit risk

B. Legal risk

C. Settlement risk

D. Basis risk

ANSWER: B

Explanation:

The correct answer is **Legal risk**. The customer is challenging whether the forward rate agreement is legally enforceable, alleging that it is a wager rather than a valid financial contract. This creates uncertainty over the institution's contractual right to require payment and its ability to enforce the agreement through legal action if the customer refuses to settle. That uncertainty is legal risk: the risk of loss arising from defective, unenforceable, or disputed contractual terms, or from an adverse legal interpretation.

An FRA is an over-the-counter interest-rate derivative in which parties agree a rate for a future borrowing or lending period, with the resulting interest differential generally settled at the start of that period on a discounted basis. Sound dealing practice requires firms to ensure that transaction documentation, counterparty authority, governing law, and close-out provisions support enforceability. The International Swaps and Derivatives Association provides standard legal documentation designed to establish clear and enforceable OTC derivatives relationships. See the ISDA website and the Bank for International Settlements' discussion of sound practices for managing liquidity in banking organisations, which recognises the importance of legal certainty in financial arrangements.

QUESTION NO: 62

Which of the following does not represent an operational risk as defined by Basel rules?

A. theft of information

B. damage to an organization through loss of its reputation or standing

C. market manipulation

D. loss incurred from the use of incorrect documentation

ANSWER: B

Explanation:

The correct answer is "damage to an organization through loss of its reputation or standing." Under the Basel framework, operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. The definition includes legal risk, but expressly excludes reputational risk and strategic risk. Reputational damage concerns the adverse effect on stakeholder confidence, public perception, franchise value, or the institution's standing. Although such damage can be commercially serious and may arise following an operational incident, it is not itself classified as operational risk for Basel regulatory-capital purposes.

This distinction is important in risk taxonomy and capital measurement. A firm may manage reputational risk through governance, communications, conduct controls, escalation procedures, and contingency planning, while calculating operational-risk capital according to the Basel operational-risk framework. A loss event may have both operational and reputational consequences; however, the operational-risk classification is based on the underlying failure or event and resulting direct loss, rather than on the separate deterioration of reputation. The Basel Committee's definition and its exclusion of reputational risk can be found in the Basel Committee's Principles for the Sound Management of Operational Risk and the Basel Framework operational-risk chapter.

QUESTION NO: 63

The maturity of a straight 3-months deposit falls on Saturday, which happens to be the last day of the month. What is the actual deposit maturity date?

A. The following Monday

B. Saturday

C. Sunday

D. The previous Friday

ANSWER: D

Explanation:

The previous Friday is the actual maturity date. A Saturday is not a banking business day, so the contractual maturity date must be adjusted under the applicable money-market business-day convention. For a straight deposit, the normal approach is to move a non-business-day maturity forward to the next business day. However, where that forward adjustment would move the maturity into the following calendar month, the modified-following convention instead moves the date back to the immediately preceding business day. Because the Saturday is also the final calendar day of the month, moving forward would place settlement on Monday in a new month. The deposit therefore matures on Friday, the preceding business day, and principal plus interest are due then. This convention preserves the intended three-month tenor as closely as possible without creating an unintended extension into the next month. The general definition of the modified-following business-day convention is set out in the ISDA 2006 Definitions; it is also described in the modified following convention reference.

QUESTION NO: 64

Regarding access to production systems, which of the following is incorrect?

A. Profiles for functions are encouraged and should be reviewed semi-annually by a manager.

B. Developers should have unrestricted access to production systems.

C. Access to production systems should be rigorously controlled.

D. Users should not have access to change system functionalities.

ANSWER: B

Explanation:

“Developers should have unrestricted access to production systems.” is the incorrect statement. Production environments process live business activity and may contain sensitive client, trading, financial, or operational data. Access must therefore be granted on a need-to-know and least-privilege basis, with permissions limited to the specific activities required by an individual’s approved role. Developers ordinarily need controlled development and test environments; any exceptional production access should be formally authorised, time-bound where practicable, logged, and subject to review. This protects the integrity and availability of production services while supporting clear accountability for changes and operational actions. It also supports segregation of duties: the people who build or modify software should not be able to make unrestricted changes directly in the live environment without independent control. NIST’s Access Control guidance defines least privilege as restricting access to the minimum necessary to accomplish authorised tasks, and its account-management controls require organisations to manage, review, and monitor system accounts. These principles are directly applicable to access governance for financial-market production systems. See NIST SP 800-53 Rev. 5 and NIST definition of least privilege.

QUESTION NO: 65

Hybex Electrics is a highly rated company with a considerable amount of fixed rate liabilities and would like to increase the percentage of floating rate debt. Which of the following is the best course of action?

A. Hybex should become a payer of a fixed rate on a swap against receipt of LIBOR.

B. Hybex should become a receiver of a floating rate on a swap against payment of a fixed rate

C. Hybex should become a receiver of a fixed rate on a swap against payment of LIBOR.

D. Hybex should become a receiver of a floating rate on a swap against payment of LIBOR

ANSWER: C

Explanation:

Hybex should become a receiver of a fixed rate on a swap against payment of LIBOR. This is the standard interest-rate-swap structure for synthetically converting fixed-rate borrowings into floating-rate debt. Hybex continues to pay the contractual fixed coupon on its existing liabilities. Under the swap, it receives a fixed rate intended to offset, wholly or substantially, that fixed borrowing cost, while it pays the floating reference rate. The resulting net exposure is therefore a payment linked to the floating benchmark, increasing the proportion of the company's debt that behaves as floating-rate debt without requiring the underlying bonds or loans to be refinanced.

The company's strong credit standing supports its ability to transact in the derivatives market and manage the associated counterparty, collateral, and documentation arrangements. The economic purpose of the swap is liability-risk management: it changes the interest-rate basis of the obligation while preserving the original financing. In current markets, a successor risk-free rate may replace LIBOR where appropriate, but the conversion principle remains the same: receive fixed under the swap and pay the applicable floating benchmark. See the ISDA Interest Rate Derivatives Definitions and the FCA's LIBOR transition information.

QUESTION NO: 66

What should be done when a voice broker hits a dealer's price as "done" at the very instant the dealer calls "off"?

A. The deal should not be concluded and the broker should inform both counterparties accordingly.

B. The transaction should be concluded and the broker should inform both counterparties accordingly.

C. The broker should immediately inform both counterparties that the deal will have to be renegotiated.

D. The broker should decide whether the transaction is concluded or not and inform both counterparties accordingly.

ANSWER: B

Explanation:

The transaction should be concluded and the broker should inform both counterparties accordingly. In a voice-brokered market, a firm price remains executable until it is effectively withdrawn. Where the broker's acceptance of that price as "done" and the dealer's attempted withdrawal as "off" occur simultaneously, market-conduct convention treats the transaction as made. This provides a clear, objective outcome at the critical point of execution and preserves confidence that prices quoted through a broker can be relied upon by all participants.

The broker should communicate the concluded trade promptly and accurately to both counterparties, including the essential economic terms and counterparty identities where applicable under the market's disclosure convention. Prompt notification supports the parties' confirmation, booking, settlement, and control processes, while avoiding uncertainty over whether an executable quote was validly hit. This approach reflects the ACI Model Code's emphasis on clear dealing practices, timely communication, and the orderly resolution of issues arising in voice dealing. It is also consistent with the broader expectation that market participants apply transparent and predictable execution practices. See the ACI Model Code and the FX Global Code.

QUESTION NO: 67

When is a broker allowed to assume a deal is closed:

A. When one of the principals confirms the deal.

B. When the principals give a written undertaking for all deals done at the end of the day.

C. When an acknowledgement is received from the principal that the deal is done.

D. When both back offices acknowledge the deal.

ANSWER: C

Explanation:

When an acknowledgement is received from the principal that the deal is done, the broker has the required affirmative confirmation that the principal accepts the transaction as concluded. In the dealing process, a broker's communication facilitates execution between principals, but the broker must not treat an indication, a partial exchange, or a later operational process as conclusive closure. An explicit acknowledgement provides the essential control point: it evidences that the principal has accepted the deal terms and that the broker may record and progress the transaction as done. This discipline supports clear trade capture, prompt and accurate reporting to the parties, and the avoidance of misunderstandings about whether a binding transaction was agreed. It is particularly important in fast-moving markets, where a broker must distinguish discussion or quotation activity from final acceptance. The ACI Model Code establishes professional conduct standards for wholesale financial-market dealing, including the standards relevant to brokers and trade communications. See the ACI Model Code and ACI FMA's official professional standards resources.

QUESTION NO: 68

If you funded your fixed-income investment portfolio with short-term deposits, how would you hedge your interest rate exposure with interest rate swaps?

A. Pay fixed and receive floating through swaps for the term of the portfolio

B. Pay floating and receive fixed through swaps for the term of the portfolio

C. You cannot: the maturity of the swaps would be longer than that of the deposits

D. You should not: there would be too much basis risk

ANSWER: A

Explanation:

Pay fixed and receive floating through swaps for the term of the portfolio is correct because the portfolio has a fixed-rate asset return while short-term deposit funding is repriced at prevailing short-term rates. This creates a mismatch: the asset yield is locked in, but the funding cost can rise when market rates rise. Entering a swap in which the investor pays a fixed rate and receives a floating rate converts the net economic return on the fixed-income portfolio into a floating-rate return. The floating receipts from the swap tend to increase alongside the cost of rolling or repricing the short-term deposits, thereby offsetting the exposure to higher funding rates.

The swap's maturity should be selected to correspond broadly to the interest-rate exposure, duration, and expected holding period of the fixed-income portfolio. In practice, the floating swap index and reset dates should also be aligned as closely as possible with those of the deposit funding to make the hedge effective. This is a standard asset-liability management application of an interest-rate swap: paying fixed synthetically removes fixed-rate asset exposure, while receiving floating helps match variable-rate liabilities. The general structure and cash-flow exchange of interest-rate swaps are described by the Bank for International Settlements and the CME Group.

QUESTION NO: 69

Which of the following are quoted in terms of a discount rate?

A. USTreasury bill

B. CD

C. Interbank deposit

D. ECP

ANSWER: A

Explanation:

U.S. Treasury bill is correct because Treasury bills are issued at a price below their face (par) value and mature at par. The return is therefore represented by the difference between the discounted purchase price and the amount paid at maturity. In

standard money-market dealing conventions, the quoted Treasury-bill discount rate annualizes that discount relative to face value, using the applicable day-count convention, rather than expressing the return as an interest rate on the cash invested. This is conventionally called a bank-discount yield or discount rate. It is an important distinction for dealers because a discount rate is not directly comparable with an investment yield: its calculation uses face value as the denominator, whereas an investment yield is based on the amount invested. The U.S. Treasury's auction results explicitly report a "discount rate" for bill auctions, demonstrating this market quotation convention. TreasuryDirect also describes bills as securities purchased at a discount and paid at face value at maturity. See the U.S. Treasury auction results and TreasuryDirect's Treasury bills overview.

QUESTION NO: 70

What should be done when a voice broker calls "off" at the very instant the dealer hits the broker's price as "mine" or "yours"?

A. The transaction should be concluded and the broker should inform both counterparties accordingly.

B. The dealer who hits the broker's price may decide whether the deal is done or not; the broker should inform both counterparties accordingly.

C. The deal should not be concluded and the broker should inform both counterparties accordingly.

D. The broker should immediately inform both counterparties that the deal will have to berenegotiated.

ANSWER: C

Explanation:

The deal should not be concluded and the broker should inform both counterparties accordingly. In a voice-brokered market, clear and unambiguous communication is essential to establishing a binding transaction. The broker's call of "off" withdraws the quoted price from the market. Where that withdrawal and a dealer's attempted acceptance using "mine" or "yours" occur at precisely the same instant, there is no sufficiently clear sequence showing that acceptance occurred while the price remained available. Accordingly, the appropriate operational outcome is that no transaction has been made.

The broker must communicate that outcome promptly and consistently to both potential counterparties. This preserves an orderly audit trail, avoids either party recording an unconfirmed trade, and allows any subsequent dealing to take place only through a fresh, clearly communicated quotation and acceptance. This treatment reflects the professional-market expectation that brokers manage voice communications fairly, accurately, and in a manner that prevents uncertainty over whether a trade exists. ACI promotes standards of conduct and professionalism for financial-market participants through its Financial Markets Association. The same emphasis on clear, timely, and unambiguous dealing communications is reflected in the FX Global Code.

QUESTION NO: 71

Responsibility for the activities of all personnel engaged in dealing (both dealers and support staff) for both principals and brokers lies with:

A. the market supervisor

B. the national ACI association

C. the management of such organizations

D. the central bank

ANSWER: C

Explanation:

the management of such organizations is correct because an institution's senior management is accountable for establishing and maintaining the governance framework within which dealing activities are conducted. This responsibility

extends beyond front-office dealers to all personnel whose work supports trading, including operations, risk, compliance, finance, technology, and control functions. Management must ensure that appropriate policies, delegated authorities, segregation of duties, supervision, training, conduct standards, recordkeeping, and escalation arrangements are in place and operating effectively.

This reflects the core conduct principle that market participants should maintain a sound and effective governance framework that provides clear accountability and oversight for their market activity. Although particular supervisory, compliance, or control responsibilities may be delegated to suitably qualified individuals, ultimate organizational accountability remains with management. The same expectation applies whether the organization acts as a principal in a transaction or provides brokerage services: it must manage its people, controls, and conduct in a manner consistent with applicable laws, regulation, and professional market standards.

Further guidance on governance and accountability in wholesale financial markets is available in the Global FX Code and through ACI Financial Markets Association.

QUESTION NO: 72

Between which departments are clear and structured escalation procedures required for the management of incorrect funding balances?

A. Nostro reconciliations, the Cash Management Department and Operations

B. Front Office, the Cash Management Department and Operations

C. Front Office, Nostro reconciliations and Operations

D. Front Office, Nostro reconciliations and the Cash Management Department

ANSWER: B

Explanation:

Front Office, the Cash Management Department and Operations is correct because an incorrect funding balance must be identified, investigated, communicated, and resolved through a controlled process involving the functions that trade, manage liquidity, and process or confirm cash movements. Front Office needs prompt visibility because the funding position can affect dealing decisions, market exposure, and the ability to raise or place cash. Cash Management is responsible for monitoring the overall cash and liquidity position, assessing the impact of the discrepancy, and arranging any required funding action. Operations provides the transaction-processing and settlement information needed to establish the source of a break and correct records or payments. A defined escalation path between these three functions ensures that a discrepancy is not merely recorded but is assigned, acted on within the necessary timeframe, and reported at the appropriate level. This supports sound segregation of duties, accurate liquidity management, and operational-risk control. These expectations are consistent with the professional-market-practice framework maintained by ACI Financial Markets Association and the Basel Committee's guidance on effective risk data aggregation and risk reporting, which stresses timely, accurate information and escalation for effective risk management.

QUESTION NO: 73

One of your brokers asks you to buy and sell EUR/USD at the same price net of brokerage in order to allow him to clear a transaction.

A. You must have prior senior management approval.

B. You must have the authoritq to switch names.

C. You must execute such transactions as promptly as possible within policy guidelines

D. All of the above.

ANSWER: D

Explanation:

All of the above is correct. The request describes a name-switching or broker-clearing arrangement: offsetting purchases and sales of the same currency pair at the same net price are undertaken to assist the broker in clearing a transaction rather than to establish a new market position. Such activity requires robust control because it can create credit, settlement, operational, and conduct exposures despite the intended economic neutrality. ACI dealing practice requires that an institution have senior-management approval for this type of arrangement, and that the dealer acting on the request be specifically authorised to switch names. The transaction must also be completed promptly and within the firm's documented policy limits and procedures. Prompt execution helps ensure that the switch is a genuine clearing accommodation and that the desk does not assume unintended market exposure while the two legs remain outstanding. These requirements should operate together: management approval establishes the permitted framework, delegated authority identifies who may act, and timely execution within policy maintains effective risk control and an audit trail. This approach is consistent with the conduct, governance, and risk-management expectations set out by ACI and the FX Global Code. See ACI Financial Markets Association and the FX Global Code.

QUESTION NO: 74

Supervisors would generally consider interest rate risk exposure in the banking book excessive beginning at what level of losses given a +1- 200 bps market rate movement?

A. > 2% of 6 months forward earnings

B. > 20% of regulatory capital

C. <10% of regulatory capital

D. < 5% of 12 months forward earnings

ANSWER: B

Explanation:

The correct threshold is **> 20% of regulatory capital**. In the Basel supervisory framework traditionally used for interest-rate-risk-in-the-banking-book assessments, a bank is identified as an outlier where the decline in the economic value of its banking-book positions, measured under the prescribed 200-basis-point interest-rate shock, exceeds 20% of its total capital. This is a supervisory screening threshold, not a routine operating limit: exceeding it signals that the bank's exposure may be excessive relative to its capital resources and warrants enhanced supervisory attention. The calculation focuses on the change in economic value resulting from the assumed parallel rate movement, thereby capturing the present-value effect of rate changes on future banking-book cash flows. Regulatory capital is the relevant denominator because it represents the financial capacity available to absorb such value losses. This 20% benchmark is stated in the Basel Committee's earlier interest-rate-risk principles and is the convention reflected by the question's ±200-basis-point scenario. See the Basel Committee's Principles for the management and supervision of interest rate risk and the associated official BIS publication.

QUESTION NO: 75

Market participants should, where activity justifies it, aim to reduce settlement and related credit risk on currency transactions by:

A. Establishing realistic daylight limits for counterparties.

B. Monitoring all payments to counterparties who are known to be experiencing difficulties.

C. Establishing legally binding bilateral netting agreements with counterparties or participating in a multilateral netting system.

D. Seeking pre-payment.

ANSWER: C

Explanation:

Establishing legally binding bilateral netting agreements with counterparties or participating in a multilateral netting system is correct because enforceable netting reduces the amount of gross settlement exposure created by foreign-exchange transactions. Rather than requiring each payment obligation to be settled independently, netting allows reciprocal obligations to be offset and replaced by a smaller net amount payable by one party to the other. This reduces the principal amounts at risk during the settlement process, the number and value of payment flows, and the associated counterparty credit exposure.

The protection depends on the agreement being legally binding and enforceable in the relevant jurisdictions, including if a counterparty becomes insolvent. Market participants should therefore obtain appropriate legal analysis, document the arrangement properly, and maintain operational procedures that calculate and settle net obligations accurately. Multilateral netting can extend these benefits across a wider set of participants when it is supported by robust rules, risk controls, and legal certainty. This approach is consistent with international guidance that identifies legally sound netting and payment-versus-payment arrangements as important tools for controlling foreign-exchange settlement risk. See the Global FX Code and the BIS report on settlement risk in foreign exchange transactions.

QUESTION NO: 76

For which of the following might an MT370 be used?

A. To confirm an FX transaction

B. To advise the netting position of a currency in NDFS

C. To advise changes in SSIs

D. To confirm a MM transaction

ANSWER: B

Explanation:

To advise the netting position of a currency in NDFS is correct because MT370 is the SWIFT FIN message type named *Netting Position Advice*. It is used in a netting environment to communicate a participant's resulting net currency position for a stated value date after transactions have been processed through the netting arrangement. In an NDF-related netting process, the message can therefore advise the currency position arising from the netting calculation, supporting the recipient's funding, settlement, and operational control activities.

The essential purpose of MT370 is the communication of a calculated net position, rather than the bilateral confirmation of an individual trade. Its use reflects the distinction between gross transaction-level messaging and the post-netting advice required when multiple obligations are consolidated into a single position. This message belongs to SWIFT's category of messages used for treasury and foreign-exchange business, where standardized message definitions enable consistent automated processing between market participants and relevant infrastructures. SWIFT's MT standards framework is described at SWIFT MT Standards, and information on the ISO 15022 message-standard framework underpinning FIN message specifications is available at ISO 15022.

QUESTION NO: 77

You are a sales person in a bank and are about to sell a structured note to a non-professional customer. Before finalizing the transaction you remember to double-check the customer's charter. You learn that the customer is not allowed to invest in structured products. The risk you have avoided is most likely to be classified as:

A. credit risk

B. liquidity risk

C. legal risk

D. refinancing risk

ANSWER: C

Explanation:

legal risk is correct because the customer's charter defines the customer's legal authority and investment powers. If the bank were to execute a purchase of a structured note despite a restriction in that charter, the transaction could be challenged as being outside the customer's capacity or authority. This can create uncertainty over the contract's enforceability and may expose the bank to claims, disputes, restitution, or losses arising from an invalid or improperly authorised transaction.

Confirming that a counterparty has the requisite capacity and authority is therefore a core pre-trade control. In practice, this includes reviewing constitutional documents, mandates, signing powers, and investment restrictions before concluding the deal. The fact that the customer is non-professional also heightens the importance of careful product-governance and suitability processes, but the immediate risk identified by the charter restriction is the legal enforceability risk associated with entering into a transaction the customer is not permitted to make.

The Basel Committee expressly includes legal risk within operational risk, describing it as the risk of loss from legal actions and related legal uncertainty. See the Basel Committee's Principles for the Sound Management of Operational Risk and the Basel operational-risk standard.

QUESTION NO: 78

A forward/forward FX swap:

A. is a contract by which the maturity of a regular FX swap can be extended at an historic (noncurrent) rate

B. is a swap transaction where the near leg is traded either value today or value tomorrow and the far leg is traded spot

C. is a swap that does not start spot and where both the near and the far leg are traded forward

D. is a transaction by which a maturing outright forward FX is prolonged at an historic (non-current) rate

ANSWER: C

Explanation:

"is a swap that does not start spot and where both the near and the far leg are traded forward" is correct. An FX swap consists of two linked foreign-exchange transactions in opposite directions for the same currency pair, with distinct value dates. In a forward/forward FX swap, neither leg settles on the ordinary spot value date. Instead, the first exchange has a forward value date and the reverse exchange has a later forward value date. The transaction therefore creates or manages a currency position over a future period, beginning after spot and ending at a further future date. The rate relationship between the two legs reflects the relevant interest-rate differential and the forward points for the dates concerned; operationally, the two legs are agreed together as one swap transaction. This terminology distinguishes a forward/forward structure from a spot/forward FX swap, whose first leg settles at spot. It is particularly relevant in money-market and FX dealing when counterparties need to fund, invest, roll, or hedge currency exposure for a period that begins on a future date. The definition is consistent with the Global FX Code's description of an FX swap as simultaneous purchases and sales of two currencies with different value dates, while the forward/forward qualifier specifies that both of those dates are forward dates. See the Global FX Code and ACI FMA Education.

QUESTION NO: 79

You are quoted the following market rates:

spot GBP/USD. 1.6530 9M (272-day) GBP. 3.60%

9M (272-day) USD. 1.95%

What are the 9-month GBP/USD forward points?

A. +206

B. +197

C. -195

D. -204

ANSWER: C

Explanation:

The correct answer is **-195**. For a GBP/USD quotation, GBP is the base currency and USD is the terms currency. The covered-interest-parity calculation therefore obtains the outright forward rate by multiplying the spot rate by the USD deposit factor and dividing it by the GBP deposit factor. The relevant market day-count conventions are applied separately: USD money-market interest uses an ACT/360 basis, while sterling interest uses ACT/365. Thus, the forward rate is approximately 1.6530 × [1 + (0.0195 × 272/360)] ÷ [1 + (0.0360 × 272/365)] = 1.6335. The difference from spot is approximately 1.6335 − 1.6530 = −0.0195. Since GBP/USD is conventionally quoted to four decimal places, forward points are expressed in units of 0.0001; consequently, −0.0195 corresponds to −195 forward points. The negative sign is economically consistent with the higher sterling interest rate relative to the US dollar rate: under covered interest parity, the higher-yielding base currency is at a forward discount against the terms currency. This is the standard interest-rate-parity relationship used to derive FX forwards. See the Bank for International Settlements discussion of covered interest parity and the Global FX Code resources.

QUESTION NO: 80

A payer's 3-month USD LIBOR swap with a remaining term of five years must be reported as:

A. a five-year liability and a three-month asset

B. a five-year asset and a three-month liability

C. a five-year asset only

D. a three-month liability only

ANSWER: A

Explanation:

A payer's 3-month USD LIBOR swap is reported as **a five-year liability and a three-month asset**. In standard interest-rate-swap terminology, the payer is the party paying the fixed rate and receiving the floating reference rate. The fixed-rate payment obligation continues for the swap's remaining contractual maturity, which is five years. For maturity-gap and interest-rate-risk reporting, that fixed leg is therefore represented as a five-year liability.

The floating leg is linked to three-month USD LIBOR. Although the contract itself remains outstanding for five years, the interest rate on the received floating leg resets at each three-month interest period. Its relevant repricing maturity is consequently three months, and it is represented as a three-month asset. This split treatment captures the economic exposure created by paying a long-dated fixed rate while receiving a rate that reprices frequently. It is the standard cash-flow/repricing approach used to show the maturity and interest-rate characteristics of each swap leg separately. The Bank for International Settlements describes an interest-rate swap as an exchange of fixed and floating interest-payment streams; see its derivatives statistics methodology. The International Swaps and Derivatives Association also provides market background on interest-rate derivatives in its Interest Rate Derivatives Definitions.

QUESTION NO: 81

If GSP/USD is quoted to you at 1.61 20-30, how much GSP would you receive if you sold USD 2000,000?

A. 1,239,925.60

B. 1,237,873.80

C. 1,240,694.79

D. 1,242,720.50

ANSWER: A

Explanation:

1,239,925.60 is correct. In a GSP/USD quotation, GSP is the base currency and USD is the terms (or price) currency. The two-way price of 1.6120–1.6130 means a dealer buys GSP at USD 1.6120 per GSP and sells GSP at USD 1.6130 per GSP. A customer selling USD wishes to obtain GSP, so the customer is buying the base currency from the dealer. Consequently, the offer side of 1.6130 USD per GSP must be used.

The GSP amount is therefore calculated by dividing the USD amount by the applicable USD-per-GSP offer rate: USD 2,000,000 ÷ 1.6130 = GSP 1,239,925.60 (rounded to two decimal places). This follows standard FX market quote handling: the bid is relevant when a customer sells the base currency, while the offer is relevant when the customer buys the base currency. The ACI FX Global Code stresses clear, consistent handling of market conventions and pricing practices; see the ACI FX Global Code. For a concise description of bid and ask pricing mechanics, see Investopedia's bid-and-ask overview.

QUESTION NO: 82

If a dealer has interest on one side, and the other side is dealt away, the broker should:

A. Immediately put the price "under reference" and check with the dealer to ascertain his original intention.

B. Cancel the order.

C. Continue with the order.

D. None of the above.

ANSWER: A

Explanation:

Immediately put the price "under reference" and check with the dealer to ascertain his original intention. This is the appropriate broking response because the dealer's remaining interest may have been conditional on the availability of the opposite side, the size available, or the market circumstances at the time the indication was made. Once the other side has traded away, a broker must not assume that the dealer's interest remains executable or continue representing it as firm without confirmation.

Marking the price "under reference" promptly communicates to the market that the interest is temporarily unavailable while the broker verifies the dealer's instructions. The broker should contact the dealer without delay, establish whether the dealer wishes to maintain, amend, or withdraw the interest, and then handle any further communication consistently with that instruction. This protects the dealer from an unintended execution while supporting an orderly, transparent market and preserving the broker's duty to handle client instructions accurately and fairly. These standards align with the conduct and market-practice principles set out in the ACI Financial Markets Association materials and the UK FCA's Market Conduct sourcebook, which emphasises proper market conduct and avoidance of misleading market communications.