

CM-SIP Extensive Question Bank

This question bank follows the sequence and style of Appendix E in the IBF CM-SIP guide, but expands it substantially. It is organised by chapter and section, includes Chapters 1 and 12 even though Appendix E does not provide separate blocks for them, and adds calculations, suitability decisions and scenario questions. Answers and rationales are hidden inside expandable sections; click Show answer after attempting each question.

For multiple-response questions, select every correct option. Unless stated otherwise, use a 360-day convention for non-Singapore-Government-Securities products and the formulas in Appendix D of CMSIP_AI.md. These are original revision questions, not a reproduction of the source's review-question set.

Chapter 1 — Overview of Derivatives

1.1 Introduction and 1.2 Underlying asset classes

1. [Single choice] Which statement best defines a derivative?

- a. A security that always gives ownership of a company.
- b. A contract whose value is linked to an underlying asset, rate, index, event or outcome.
- c. A deposit whose principal is always insured.
- d. A bond with no maturity.

Answer: b. A derivative derives value from an underlying; ownership does not automatically pass to the investor.

2. [Multiple response] Which are common uses of derivatives?

- a. Hedging an existing exposure.
- b. Speculating on direction or volatility.
- c. Arbitrage between mispriced markets.
- d. Repackaging cash flows or creating a synthetic position.

Answer: a, b, c and d. All four are core uses.

3. [Single choice] A Singapore importer payable in USD in three months is most directly exposed to:

- a. USD/SGD currency risk.
- b. Equity dilution risk only.
- c. The risk that a call option will always be exercised.
- d. No risk until payment day.

Answer: a. A currency forward, future or option may hedge the USD payable.

4. [Multiple response] Which asset classes are discussed as derivative underlyings?

- a. FX.
- b. Money-market/short-term rates.
- c. Fixed income and credit.
- d. Equities and commodities.

Answer: a, b, c and d. The guide also extends these to indices, baskets, funds and other references.

5. [Single choice] Why can an NDF be useful for a restricted currency?

- a. It guarantees physical delivery of the restricted currency.
- b. It is normally cash-settled without exchanging the notional currency.
- c. It eliminates all FX risk.
- d. It is always exchange traded.

Answer: b. An NDF settles the difference between the contracted rate and the fixing/spot rate.

6. [Single choice] Which statement about a CDS is correct?

- a. It always transfers legal ownership of a bond.
- b. It transfers or references credit protection on a debt obligation or index.
- c. It is a form of equity dividend.
- d. It is a physical commodity storage contract.

Answer: b. The protection buyer pays a spread and receives a contingent payment after a defined credit event.

7. [Multiple response] Commodity-derivative pricing can be affected by:

- a. Storage and insurance cost.
- b. Transport and delivery location.
- c. Seasonality, weather and supply/demand.
- d. The USD and interest rates.

Answer: a, b, c and d. These factors influence carry, convenience yield and spot/futures relationships.

1.3 Exchange-traded derivatives and 1.4 OTC derivatives

8. [Multiple response] Typical exchange-traded derivative features include:

a. Standardised contract terms. b. Central clearing. c. Daily mark-to-market/margining. d. Bespoke bilateral terms for every customer.

Answer: a, b and c. Bespoke terms are primarily an OTC feature.

9. [Single choice] Central clearing mainly reduces:

a. All market losses. b. Bilateral counterparty exposure through the clearing mechanism. c. The need to post margin. d. Basis risk.

Answer: b. A CCP becomes the buyer to every seller and seller to every buyer, but market, margin, liquidity and clearing risks remain.

10. [Multiple response] OTC customisation can increase exposure to:

a. Counterparty risk. b. Liquidity and close-out risk. c. Model, valuation and documentation risk. d. Legal and operational risk.

Answer: a, b, c and d. Customisation is valuable but less standardised and often less liquid.

11. [Single choice] Which post-crisis reform is consistent with the guide?

a. Ban all derivatives. b. Move suitable standardised OTC derivatives toward electronic/exchange trading, CCP clearing and trade reporting. c. Remove capital requirements for uncleared derivatives. d. Replace all OTC products with physical shares.

Answer: b. These are examples of the G20 reform direction described in the source.

1.5 Structured products and 1.6 Singapore market

12. [Single choice] A structured product should be analysed as:

a. A guaranteed deposit because it has a high coupon. b. A wrapper containing a principal component plus one or more derivative exposures. c. Direct ownership of every underlying asset. d. An instrument with no issuer risk.

Answer: b. The headline return can compensate the investor for selling protection, accepting conversion or bearing issuer/illiquidity risk.

13. [Multiple response] Before recommending a structured product, a representative should examine:

a. Trigger/barrier and payoff formula. b. Issuer/SPV and counterparty. c. Liquidity, early termination and fees. d. Currency, maximum loss and suitability.

Answer: a, b, c and d. A product label is not a complete risk description.

14. [Single choice] Which venues are identified in the guide's Singapore-market overview?

a. SGX-DT, ICE Futures Singapore and APEX. b. Only an unregulated bilateral telephone market. c. Only US exchanges. d. None; Singapore has no derivatives market.

Answer: a. The source also discusses Singapore's Asian equity-index, commodity, FX and rates role.

15. [Scenario] A distributor relies on a foreign target-market document and does not perform Singapore KYC/knowledge/suitability checks. What is the best conclusion?

a. This is acceptable because foreign product governance replaces local obligations. b. Product governance, disclosure, KYC, suitability, conflicts and local regulatory obligations still need to be addressed. c. Only the client's net worth matters. d. No checks are needed for exchange-traded products.

Answer: b. The MiFID II discussion in the source is an application example; it does not displace Singapore requirements.

Chapter 2 — Futures, Forwards and Swaps

2.1 Introduction and 2.2 General features

16. [Single choice] Which is the clearest difference between a future and a forward?

- a. Futures are usually standardised/exchange cleared; forwards are usually customised/OTC. b. Futures have no maturity; forwards always expire daily. c. Forwards are always safer because they are bilateral. d. Futures cannot be closed before maturity.

Answer: a. Futures also use daily MTM/margin, while forwards generally have bilateral credit exposure and less secondary liquidity.

17. [Multiple response] Futures contracts commonly specify:

- a. Contract size/multiplier. b. Tick size and price limits. c. Trading hours and last trading day. d. Settlement and delivery terms.

Answer: a, b, c and d. These define the tradable contract.

18. [Calculation] An E-mini contract is quoted at 5,000 and has a multiplier of 50. What is the notional value?

- a. USD5,050. b. USD25,000. c. USD250,000. d. USD500,000.

Answer: c. $5,000 \times 50 = \text{USD}250,000$ per contract.

19. [Calculation] A Nikkei contract is at 22,500 with a JPY500 multiplier. Initial margin is 6.5%. What margin is required?

- a. JPY73,125. b. JPY731,250. c. JPY1,462,500. d. JPY11,250,000.

Answer: b. Notional = JPY11,250,000; $11,250,000 \times 6.5\% = \text{JPY}731,250$.

20. [Single choice] Daily mark-to-market means:

- a. Gains/losses are settled periodically based on the contract's changing market value. b. The investor pays the entire notional on day one. c. The underlying is always physically delivered daily. d. Margin is never adjusted.

Answer: a. Daily settlement creates cash-flow and margin-call risk.

2.3 Types and 2.4 settlement/clearing

21. [Single choice] A short-term interest-rate futures price is quoted as $100 - R$. If implied rate rises, the futures price generally:

- a. Rises. b. Falls. c. Is unchanged. d. Becomes the spot equity index.

Answer: b. The quote is inversely related to the implied rate.

22. [Calculation] A short-rate future is quoted at 98.25. What implied rate does the source convention suggest?

- a. 0.175%. b. 1.75%. c. 98.25%. d. 101.75%.

Answer: b. $R = 100 - 98.25 = 1.75\%$.

23. [Calculation] A GBP/USD spot rate is 1.2422. UK rate is 0.70444%, US rate is 1.799%, and tenor is one year. Using interest-rate parity with USD as base, the theoretical rate is closest to:

- a. 0.9989. b. 1.2487. c. 1.2557. d. 3.1743.

Answer: c. $F = 1.2422 \times (1.0070444)/(1.01799) \approx 1.2557$ under the guide's quotation convention.

24. [Multiple response] A futures position can be resolved by:

- a. Offset/close-out. b. Physical delivery where specified. c. Cash settlement where specified. d. Rolling into a later contract.

Answer: a, b, c and d. The appropriate route depends on the contract and investor's objective.

25. [Single choice] What does an SGX clearing house do?

- a. Sets all market prices by itself. b. Clears/margins contracts and manages default processes as the central counterparty. c. Guarantees profitable trades. d. Removes the need to understand contract specifications.

Answer: b. Clearing reduces bilateral credit exposure but does not guarantee profit or eliminate market risk.

2.5 Pricing and 2.6 basis

26. [Calculation] Spot gold is 1,300, carry is 0.28% for the period and there is no income. Approximate fair futures value under $F = S(1+C)$ is:

- a. 1,296.36. b. 1,300.00. c. 1,303.64. d. 1,328.00.

Answer: c. $1,300 \times 1.0028 = 1,303.64$.

27. [Single choice] In a cash-and-carry arbitrage when futures is too high, the trader normally:

- a. Buys/finances the spot asset and sells futures. b. Sells spot and sells futures. c. Buys both spot and futures. d. Does nothing because price differences are always risk-free.

Answer: a. The spot position carries the asset into delivery while the short futures locks the sale price.

28. [Multiple response] Basis can be affected by:

- a. Carry, storage, insurance and convenience yield. b. Time to expiry and yield-curve changes. c. Liquidity and contract/asset mismatch. d. Administered versus market rates and expectations.

Answer: a, b, c and d. Basis is not simply "the forecast price."

29. [Single choice] Contango usually means:

- a. Futures price is above spot. b. Futures price is below spot. c. Spot and futures are identical at every date. d. There is no carrying cost.

Answer: a. Backwardation is the opposite relationship, though the exact level also reflects income and convenience yield.

30. [Scenario] A hedge is closed two months before expiry and the asset being hedged is similar but not identical to the futures underlying. The main residual risk is:

- a. Basis risk. b. Voting-rights risk only. c. No risk because futures are cleared. d. Deposit-insurance risk.

Answer: a. Mismatch and early close-out prevent perfect convergence.

2.7 Swaps and 2.8 summary

31. [Single choice] In a vanilla interest-rate swap, the notional is normally:

- a. Exchanged physically at each reset. b. Used to calculate interest cash flows but not exchanged. c. Always converted into shares. d. The option premium only.

Answer: b. Fixed and floating interest amounts are netted/paid on the notional.

32. [Multiple response] Which swap descriptions are correct?

- a. An FX swap has near and forward legs. b. A currency swap exchanges debt-service obligations in two currencies. c. An equity swap exchanges equity/index return for fixed or floating payments. d. A commodity swap can exchange fixed and floating commodity prices.

Answer: a, b, c and d. These are distinct applications of OTC cash-flow exchange.

33. [Single choice] A CDS protection buyer generally:

- a. Pays a spread and receives protection after a defined credit event. b. Receives a fixed dividend and gives voting rights. c. Buys physical gold. d. Has no exposure to the protection seller.

Answer: a. The protection seller's ability to pay is itself a counterparty risk.

34. [Scenario] A borrower pays floating interest but wants fixed cash flows. The most direct swap action is to:

a. Pay fixed and receive floating. b. Pay floating and receive floating. c. Buy a put warrant. d. Sell a commodity future.

Answer: a. The received floating leg offsets the borrower's floating liability.

35. [Multiple response] Why can a swap still be risky after it achieves the desired hedge?

a. Counterparty/default risk. b. Basis, reset and mismatch risk. c. Collateral, legal and documentation risk. d. Early termination/valuation and liquidity risk.

Answer: a, b, c and d. Hedging reduces a targeted risk, not every risk.

Chapter 3 — Futures Strategies

3.1 Participants and 3.2 SGX orders

36. [Single choice] A portfolio manager sells index futures while continuing to hold the cash portfolio. The manager is acting primarily as a:

a. Hedger. b. Market maker. c. Arbitrageur with no cash exposure. d. Depositor.

Answer: a. The futures position offsets the portfolio's market exposure.

37. [Multiple response] Which participants can be active in futures markets?

a. Hedgers. b. Speculators and hedge funds. c. Market makers and proprietary firms. d. Arbitrageurs, portfolio managers and official institutions.

Answer: a, b, c and d. Different participants supply liquidity and transfer/accept risk.

38. [Single choice] A buy limit order at \$10.00 when the ask is \$10.02 will generally:

a. Execute immediately at \$10.02. b. Rest in the queue at \$10.00 or better until filled, amended or cancelled. c. Become a sell order. d. Guarantee execution at the close.

Answer: b. A limit order controls price but not execution.

39. [Single choice] In an MTL buy order, any unfilled quantity normally:

a. Is cancelled immediately in all cases. b. Remains at the price where the filled portion executed, subject to the rules. c. Converts into an option. d. Is physically delivered.

Answer: b. MTL provides market execution for the first fill and a limit-like resting balance.

40. [Multiple response] A stop order may be used to:

a. Cut a losing long position. b. Protect profit using a trailing stop. c. Enter after an upside breakout. d. Enter short after a downside breakdown.

Answer: a, b, c and d. The trigger direction determines the resulting buy/sell order.

3.3 Outright trades and 3.4 spreads

41. [Single choice] Which is an outright futures trade?

a. Buy one contract and sell a related contract simultaneously. b. Buy one contract to express a directional view. c. Buy near month and sell deferred month. d. Buy one call and sell another call.

Answer: b. The other choices are spread or options structures.

42. [Multiple response] Spread-trade risks include:

a. Correlation breakdown. b. One leg filling before the other. c. Liquidity and margin changes. d. The spread moving in the wrong direction.

Answer: a, b, c and d. Lower spread margin does not mean no risk.

43. [Single choice] A calendar spread usually involves:

- a. Same underlying with different delivery months. b. Different underlyings and same maturity only. c. A cash share and a bank deposit. d. Two unrelated currencies only.

Answer: a. It is also called a horizontal/time spread.

44. [Scenario] An investor expects the near-month price to strengthen relative to the deferred-month price. The natural calendar-spread expression is:

- a. Long near and short deferred. b. Short near and long deferred. c. Long both months. d. Short both months.

Answer: a. Profit depends on the near-minus-deferred spread widening.

45. [Single choice] A butterfly futures spread commonly has which weights across three maturities?

- a. +1, -2, +1. b. +1, +1, +1. c. +1, -1 only. d. +2, +2, -1.

Answer: a. The structure targets curvature rather than a simple outright direction.

46. [Single choice] Compared with a butterfly, a condor normally has:

- a. Four different maturities and a wider but lower peak profit zone. b. Two legs and unlimited loss. c. No sensitivity to volatility. d. Only one maturity.

Answer: a. A condor uses four different delivery points.

47. [Single choice] The TED spread is associated with:

- a. T-bill/Treasury versus Eurodollar/LIBOR pricing and credit/liquidity conditions. b. Gold versus silver storage only. c. Two equity dividends. d. A company's ordinary share split.

Answer: a. It is not a pure directionless interest-rate measure.

3.5 Hedging and portfolio management

48. [Single choice] The purpose of hedging is best described as:

- a. Eliminate every possible loss. b. Exchange uncertain exposure for a more predictable outcome, usually leaving basis risk. c. Guarantee a higher return than speculation. d. Avoid all margin.

Answer: b. A hedge targets a defined risk and may introduce other risks/costs.

49. [Multiple response] A hedge programme should specify:

- a. Exposure and objective. b. Correlation/hedgeability and vehicle. c. Horizon, target ratio and roll/close-out. d. Monitoring, limits and residual risk.

Answer: a, b, c and d. A hedge is a managed programme, not a single trade.

50. [Calculation] A cash exposure is \$100m, a futures contract is \$1m and the one-to-one hedge ratio is 1. How many contracts are required for a complete hedge?

- a. 10. b. 50. c. 100. d. 1,000.

Answer: c. $100\text{m}/1\text{m} = 100$; a short position would normally hedge a long cash exposure.

51. [Calculation] A portfolio is SGD5.1025m, the futures quote is 4,100, value per point is SGD50 and beta is 1.2. Approximate contracts using $N = VP / (F \times T) \times \beta$.

- a. 15. b. 30. c. 60. d. 120.

Answer: b. $5,102,500 / (4,100 \times 50) \times 1.2 \approx 29.77$, rounded to about 30.

52. [Single choice] A long-term bond hedge should primarily compare:

a. Face value only. b. PVBP/DV01 and the conversion factor of the deliverable futures bond. c. The issuer's dividend yield. d. Equity beta only.

Answer: b. Dollar interest-rate sensitivity is the relevant exposure.

53. [Multiple response] Futures can support portfolio techniques such as:

a. Asset allocation and rebalancing. b. Synthetic exposure and cash equitisation. c. Duration or equity overlay hedging. d. Temporary market exposure while cash is invested.

Answer: a, b, c and d. The efficiencies come with basis, roll, margin and tracking risks.

3.6 Portfolio techniques and 3.7 arbitrage

54. [Single choice] Cash-and-futures arbitrage is most credible when:

a. The apparent spread exceeds funding, trading, storage, margin and delivery costs. b. The spread is smaller than all transaction costs. c. The asset cannot be bought or borrowed. d. There is no way to close either leg.

Answer: a. The theoretical arbitrage must survive real-world costs and constraints.

55. [Multiple response] Why might an apparent futures arbitrage not be risk-free?

a. Funding/borrow constraints. b. Basis and value-date mismatch. c. Liquidity, bid-ask and margin. d. Delivery options or counterparty issues.

Answer: a, b, c and d. The textbook cash-and-carry assumptions are often violated.

56. [Scenario] A trader buys the cash asset, sells an overpriced future and plans to deliver at maturity. The position is a:

a. Cash-and-carry arbitrage. b. Reverse cash-and-carry. c. Bull put spread. d. Covered call.

Answer: a. The physical/cash asset is carried against a futures sale.

57. [Single choice] A strip differs from a stack because a strip generally:

a. Uses sequential futures delivery months corresponding to the exposure periods. b. Uses only the nearest contract and never rolls. c. Is always an option. d. Has no basis risk.

Answer: a. A stack concentrates in one/deferred contract and may be rolled to match a loan's reset dates.

58. [Scenario] A company has a floating-rate loan and expects rates to rise. A short Eurodollar/short-rate futures hedge aims to:

a. Gain as futures prices fall when rates rise, offsetting higher loan interest. b. Increase its floating-rate exposure. c. Receive dividends. d. Remove all credit risk from the borrower.

Answer: a. The hedge offsets rate sensitivity, subject to correlation and basis.

59. [Multiple response] A 130/30 equity strategy means:

a. Long 130% of portfolio value. b. Short 30%. c. Net 100% equity exposure before other effects. d. No leverage or short-sale risk.

Answer: a, b and c. It still carries leverage, borrow, stock-selection and market risks.

60. [Single choice] A player who sells contracts while holding the underlying stock is most likely:

a. A hedger. b. A market maker with no risk. c. A depositor. d. A call-option buyer.

Answer: a. The futures sale reduces cash-market exposure.

Chapter 4 — Options

4.1–4.2 Basics and definitions

61. [Single choice] The buyer of a call option has:

- a. The obligation to buy. b. The right, but not the obligation, to buy at the strike. c. The right to sell only. d. No premium obligation.

Answer: b. The buyer pays premium for optionality; the writer has the contingent obligation.

62. [Single choice] An American option may be exercised:

- a. Only at expiry. b. Any time up to expiry, subject to its terms. c. Only if it is OTM. d. Only by the writer.

Answer: b. European exercise is expiry-only.

63. [Calculation] A call has strike \$50, underlying \$54 and premium \$6. Its intrinsic value and time value are:

- a. \$6 and \$0. b. \$4 and \$2. c. \$50 and \$4. d. \$54 and \$6.

Answer: b. Call intrinsic = $54 - 50 = \$4$; time value = $\$6 - \$4 = \$2$.

64. [Multiple response] For a long call, which changes generally increase value, all else equal?

- a. Higher underlying price. b. Higher volatility. c. More time to expiry. d. Higher dividends.

Answer: a, b and c. Higher dividends generally reduce call value.

4.3–4.6 Payoff, factors and parity

65. [Calculation] A long call has strike \$100 and premium \$7. What is breakeven at expiry?

- a. \$93. b. \$100. c. \$107. d. Unlimited.

Answer: c. Breakeven = $X + \text{premium} = \$107$.

66. [Single choice] Maximum loss for a long put is normally:

- a. Unlimited. b. The premium paid. c. The strike plus premium. d. Zero only if the stock rises.

Answer: b. The put may expire worthless, but the holder's loss is limited to premium.

67. [Single choice] A naked short call has:

- a. Unlimited theoretical loss if the underlying rises sharply. b. No obligation. c. A guaranteed maximum loss equal to premium. d. A right to buy the underlying.

Answer: a. The writer must deliver/satisfy the call if exercised.

68. [Single choice] Put-call parity for European options is:

- a. $C + PV(X) = P + S$. b. $C + P = S - PV(X)$. c. $C - PV(X) = P + S$. d. $C + S = P - PV(X)$.

Answer: a. Same underlying, strike, expiry, quantity and consistent dividend assumptions are required.

69. [Multiple response] Under parity, a synthetic long stock can be created by:

- a. Long call and short put, with the same strike/expiry. b. Long put and short call only. c. Two long calls with different strikes. d. A bond alone.

Answer: a. Long call – short put plus the parity bond/financing relationship reproduces the stock cash flows.

70. [Scenario] A trader buys a call and a put at the same strike and expiry, expecting a large move but no direction. This is a:

- a. Long straddle. b. Short strangle. c. Bull put spread. d. Covered call.

Answer: a. A straddle is long call and long put at the same strike.

4.7–4.10 Valuation, Greeks and other underlyings

71. [Multiple response] Which statements about Greeks are correct?

- a. Delta measures option-price sensitivity to the underlying. b. Gamma measures the change in delta. c. Theta measures time decay. d. Vega measures volatility sensitivity.

Answer: a, b, c and d. Rho measures sensitivity to interest rates.

72. [Single choice] Gamma is often largest when an option is:

- a. Deep ITM and years from expiry. b. Near ATM and close to expiry. c. Certain to expire worthless immediately. d. A zero-coupon bond.

Answer: b. Delta changes rapidly near the strike as expiry approaches.

73. [Single choice] Vega is generally positive for:

- a. Long calls and long puts. b. Short calls only. c. Long stock only. d. Short straddles only.

Answer: a. Higher implied volatility generally increases the value of long options.

74. [Multiple response] Equity-index option analysis should consider:

- a. Cash settlement and multiplier. b. Index composition and liquidity. c. Basis/correlation with a portfolio. d. OTC counterparty risk where applicable.

Answer: a, b, c and d. An index is not automatically a perfect hedge.

75. [Single choice] A payer swaption generally benefits its buyer when:

- a. Rates rise above the fixed strike. b. Rates fall to zero only. c. Equity dividends rise. d. A commodity is delivered.

Answer: a. The buyer gains the right to enter a pay-fixed/receive-floating swap at the strike.

4.11–4.14 Strategies and hedging

76. [Multiple response] A bull call spread normally consists of:

- a. Long lower-strike call. b. Short higher-strike call. c. Same expiry/underlying. d. Unlimited loss in all cases.

Answer: a, b and c. The short call caps gain and helps fund the debit; loss is generally limited to net premium.

77. [Single choice] A bear put spread profits primarily when:

- a. The underlying falls. b. Volatility is always zero. c. The underlying rises without limit. d. Interest rates fall only.

Answer: a. It is a debit bearish structure with defined risk and capped profit.

78. [Single choice] A long strangle is generally cheaper than a long straddle because:

- a. It uses OTM options at different strikes and needs a larger move. b. It has no premium. c. It is always risk-free. d. It contains only one option.

Answer: a. The trade-off is lower initial cost for wider breakevens.

79. [Scenario] An investor owns shares and wants to floor downside but retain upside above the strike. The most direct option hedge is:

- a. Buy a protective put. b. Sell a naked put. c. Buy a short call only. d. Sell the shares and buy a bond.

Answer: a. A protective put is long stock plus long put.

80. [Multiple response] A zero-cost collar normally involves:

- a. Buying a put. b. Selling an OTM call. c. Premiums approximately offsetting. d. Unlimited upside after the call strike.

Answer: a, b and c. The sold call limits upside; the structure is not free of risk.

Chapter 5 — Structured Warrants and DLCs

5.1–5.4 Warrants, terms and price factors

81. [Single choice] A structured warrant is normally:

- a. Issued by a third-party financial institution and linked to an underlying. b. A direct share with voting rights. c. A bank deposit with guaranteed return. d. A futures contract with daily margin only.

Answer: a. Issuer credit risk is therefore central.

82. [Calculation] A call warrant has $S=\$2.40$, $X=\$0.80$, price $\$0.40$, and conversion ratio $n=1$. What is gearing?

- a. $0.67\times$. b. $2\times$. c. $6\times$. d. $8\times$.

Answer: c. $2.40 / (0.40 \times 1) = 6\times$.

83. [Calculation] A call warrant has strike $\$1.00$, price $\$1.20$ and $n=1$. What is conversion price?

- a. $\$0.20$. b. $\$1.00$. c. $\$1.20$. d. $\$2.20$.

Answer: d. $X + nWP = 1 + 1.20 = \$2.20$.

84. [Calculation] A put warrant has $S=\$1.50$, $X=\$2.00$, $n=2$. What is intrinsic value per warrant?

- a. $\$0.25$. b. $\$0.50$. c. $\$1.00$. d. $\$2.50$.

Answer: a. $(2.00 - 1.50) / 2 = \$0.25$.

85. [Multiple response] Warrant value can be affected by:

- a. Underlying price and strike. b. Time and implied volatility. c. Dividends and interest rates. d. Conversion ratio, liquidity and issuer credit.

Answer: a, b, c and d. Gearing alone is not a complete valuation.

5.5–5.11 Trading, valuation, DMM, settlement and exotic warrants

86. [Single choice] The maximum loss for a buyer of a warrant, excluding transaction costs and issuer default mechanics, is generally:

- a. The amount paid for the warrant. b. Unlimited. c. The underlying share price plus strike. d. The conversion ratio.

Answer: a. The warrant may expire worthless.

87. [Single choice] A DMM's role is primarily to:

- a. Provide quotes/liquidity subject to exchange/product conditions. b. Guarantee an investor's profit. c. Remove issuer risk. d. Set the underlying company's dividend.

Answer: a. Quote obligations can be suspended or limited during disruptions.

88. [Multiple response] Corporate actions may cause a warrant issuer to adjust:

- a. Strike price. b. Conversion ratio. c. Cash settlement/final reference mechanics. d. The investor's ordinary voting rights.

Answer: a, b and c. A warrant holder does not become an ordinary shareholder merely by holding the warrant.

89. [Single choice] A five-day average settlement reference means the investor should not assume:

- a. The final payoff uses one expiry-day closing print. b. The warrant has any time value. c. The issuer has credit risk. d. A put has downside exposure.

Answer: a. The product's settlement observation must be read precisely.

90. [Multiple response] The guide's exotic warrant examples include:

- a. Index and basket warrants. b. Currency-translated and FX warrants. c. Commodity warrants. d. Discount/capped or yield-enhanced warrants.

Answer: a, b, c and d. Each adds underlying, correlation, currency or capped-upside issues.

5.12 DLCs and 5.13 summary

91. [Single choice] A 3× daily long DLC is designed to target approximately:

- a. Three times the underlying's daily percentage move before fees/adjustments. b. Three times the underlying's total return over any five-year period. c. A fixed 3% coupon. d. No loss if the underlying falls.

Answer: a. Daily reset and compounding make long-horizon results path dependent.

92. [Scenario] An index rises 10% one day and falls 9.09% the next day, approximately returning to its starting level. A daily 3× long product may:

- a. Return exactly zero before costs. b. Suffer path-dependent loss because daily returns compound. c. Pay a fixed coupon. d. Convert into ordinary shares automatically.

Answer: b. Daily leverage is not the same as a simple multiple of total-period return.

93. [Multiple response] DLC risks include:

- a. Daily reset/compounding. b. Airbag/observation and suspension mechanics. c. Issuer, DMM, liquidity and fee risk. d. Large losses when the underlying moves against the position.

Answer: a, b, c and d. The source describes them as short-term, high-risk products.

94. [Single choice] If a 5× DLC has an adverse airbag threshold of 10%, the investor should:

- a. Assume the product cannot suspend. b. Read the term sheet for the trigger, observation level, suspension and reset mechanics. c. Treat it as a deposit. d. Ignore the underlying's path.

Answer: b. The exact terms control; the guide gives illustrative thresholds, not universal rules.

Chapter 6 — Barrier Options, Binary Options and CBBCs

6.1–6.5 Barriers

95. [Single choice] For a single up-and-out call, the barrier is normally:

- a. Below spot. b. Above spot. c. Always equal to strike. d. Below zero.

Answer: b. If spot touches/crosses the upper barrier, the call may knock out.

96. [Single choice] A knock-in option becomes active:

- a. Only after the defined barrier event occurs. b. Immediately when purchased. c. Only when the holder sells it. d. Only if the issuer defaults.

Answer: a. Before activation, the option may have no vanilla payoff.

97. [Multiple response] A barrier option's outcome can depend on:

- a. Whether the barrier was ever touched. b. Continuous versus discrete monitoring. c. Rebate and settlement terms. d. Gaps, volatility, issuer and liquidity.

Answer: a, b, c and d. The same expiry price can produce different outcomes depending on path.

98. [Scenario] An investor buys a down-and-out put and the underlying gaps below the barrier overnight. The main risk is:

- a. The option may be knocked out and the premium lost despite the eventual fall. b. The investor automatically receives unlimited profit. c. The barrier becomes irrelevant. d. The put becomes a call.

Answer: a. Barrier knock-out is path-dependent and can occur during a gap.

99. [Multiple response] Barrier applications in the guide include:

a. Shark's-fin/barrier capital-preservation structures. b. Barrier reverse convertibles. c. Bonus certificates. d. Barrier straddles.

Answer: a, b, c and d. Their risk-return trade-offs differ by barrier direction and embedded leg.

6.6–6.9 Binary, basket and knock-out warrants

100. [Single choice] A one-touch binary generally pays when:

a. The barrier is touched under the stated monitoring rules. b. The underlying finishes exactly at zero. c. The investor owns the physical asset. d. The investor pays no premium.

Answer: a. A no-touch pays under the opposite path condition.

101. [Multiple response] A basket option adds risk from:

a. Correlation. b. Constituent weights and rebalancing. c. The weakest/worst-of asset where applicable. d. Dividend and liquidity differences.

Answer: a, b, c and d. Basket payoff is not simply the average of single-name outcomes.

102. [Single choice] A knock-out warrant differs from a plain warrant mainly because:

a. A barrier can terminate it before ordinary expiry. b. It cannot be issued by a bank. c. It is always a deposit. d. It has no underlying.

Answer: a. The barrier creates early-termination risk.

6.10–6.13 CBBCs and comparison

103. [Single choice] A bull CBBC benefits primarily when the underlying:

a. Rises. b. Falls through the call price. c. Stops trading permanently. d. Pays no dividend.

Answer: a. A fall to/below the bull call price can cause an MCE.

104. [Single choice] For a bear CBBC, an MCE generally occurs when the underlying:

a. Rises to or above the call price. b. Falls below the strike only. c. Pays a dividend. d. Remains unchanged.

Answer: a. A bear profits from falls but is terminated by an adverse rise.

105. [Multiple response] Which statements are correct about CBBC categories?

a. Category N has no residual value after an MCE under the source's description. b. Category R may have residual value, which may still be zero. c. MCE creates early termination. d. Category R is a guarantee of positive residual value.

Answer: a, b and c. Category R does not guarantee a positive residual.

106. [Calculation] A bull CBBC has underlying 1,050, strike 1,000, financial cost 10 and conversion ratio 10. Simplified theoretical price is:

a. 4. b. 5. c. 6. d. 10.

Answer: c. $[(1,050 - 1,000) + 10] / 10 = 6$.

107. [Calculation] A CBBC underlying is 1,200, price is \$0.60 and conversion ratio is 2,000. Using underlying/(CBBC price × conversion ratio), gearing is:

a. 1×. b. 2×. c. 1,000×. d. 2,000×.

Answer: a. $1,200 / (0.60 \times 2,000) = 1\times$. The ratio convention must always be confirmed in the term sheet.

108. [Multiple response] CBBC risks include:

- a. MCE/gap and residual-value risk. b. Issuer and liquidity/DMM risk. c. Leverage and underlying suspension.
- d. Currency, financing and maturity risk.

Answer: a, b, c and d. "No margin" does not mean "low risk."

Chapter 7 — Structured Deposits and Other Structured Products

7.1–7.5 Suitability, deposits and strategies

109. [Multiple response] A suitability review for a structured product should include:

- a. Risk appetite and knowledge. b. Liquidity needs and investment horizon. c. Currency, restrictions and concentration. d. Principal-loss, counterparty, leverage and early-exit risks.

Answer: a, b, c and d. All affect whether the product fits the client.

110. [Single choice] In the guide's Singapore description, a structured deposit is:

- a. A bank deposit with a structured/linked return and principal paid in full at maturity, subject to the product/issuer terms. b. Always deposit-insured. c. An unsecured debenture rather than a deposit. d. A direct shareholding.

Answer: a. The source specifically cautions that it is not deposit-insured and early withdrawal may lose principal/return.

111. [Scenario] A client wants a higher USD yield and is willing to receive SGD if USD strengthens beyond a strike. A DCI is suitable only if the client:

- a. Understands and accepts conversion and currency loss. b. Believes a high rate eliminates FX risk. c. Requires guaranteed USD principal in all outcomes. d. Cannot tolerate alternate-currency ownership.

Answer: a. DCI yield compensates for the short conversion option.

112. [Multiple response] Structured deposits may include:

- a. Knock-out/knock-in features. b. Bull call or put spreads. c. One-touch and range/double-no-touch features. d. Accumulator/decumulator mechanics.

Answer: a, b, c and d. Each changes the conversion, yield or purchase obligation.

113. [Single choice] An accumulator investor should be prepared to:

- a. Buy the reference stock at the strike even when market price is below it. b. Receive unlimited upside without obligations. c. Sell the stock only when the bank asks. d. Avoid all margin calls.

Answer: a. The discount is compensation for the short-put/purchase obligation.

114. [Single choice] A 1×2 accumulator generally means the investor may buy:

- a. Twice the predefined quantity when the price is below strike, subject to terms. b. No shares below strike. c. Two different currencies at a fixed rate. d. Only one share over the entire tenor.

Answer: a. Gearing magnifies downside quantity.

Chapter 8 — Structured Notes

8.1–8.3 Characteristics and types

115. [Single choice] A structured note is best described as:

- a. Debt with an embedded derivative whose return is linked to an underlying. b. Direct ownership of the underlying. c. A guaranteed deposit with no issuer risk. d. A futures exchange membership.

Answer: a. The investor's claim is normally on the issuer/SPV.

116. [Multiple response] Structured-note underlyings can include:

a. Interest rates. b. Equities and indices. c. Currencies and commodities. d. Credit references and baskets.

Answer: a, b, c and d. The wrapper does not limit the derivative reference.

117. [Single choice] A note issued through an SPV may expose the investor to:

a. The SPV and possibly swap/issuer/underlying-credit risk described in the documents. b. No credit risk because it is off balance sheet. c. Only ordinary-share voting risk. d. Guaranteed access to underlying assets.

Answer: a. Off-balance-sheet status does not itself guarantee parent support or asset recourse.

8.4–8.6 RAN, callable notes, ELN and CLN

118. [Calculation] A RAN pays 6% for 60 of 90 observation days and 1% for the remaining 30 days. Weighted annualised payout is:

a. 1.00%. b. 3.00%. c. 4.33%. d. 6.00%.

Answer: c. $6\% \times 60/90 + 1\% \times 30/90 = 4.33\%$.

119. [Single choice] A callable note creates reinvestment risk because:

a. The issuer may redeem when rates are favourable to the issuer, leaving the investor to reinvest at lower rates. b. The investor can never receive principal. c. Calls always occur when rates rise. d. The note becomes a share automatically.

Answer: a. The issuer, not the investor, generally controls the call.

120. [Calculation] An inverse floater has $X=8\%$, leverage 2 and floating index 3%. Before any floor, coupon is:

a. 2%. b. 5%. c. 6%. d. 14%.

Answer: c. $8\% - 2 \times 3\% = 2\%$ —wait: the correct arithmetic is 2%, so answer a. A floor may prevent it falling below the stated minimum.

121. [Single choice] A bull ELN most closely embeds:

a. A short put on the equity. b. A long put with unlimited protection. c. A long futures contract only. d. A CDS protection purchase.

Answer: a. Below strike, the investor may receive the falling shares/cash.

122. [Multiple response] A CLN investor may bear:

a. Issuer/SPV credit risk. b. Reference-entity credit-event risk. c. First-to-default correlation/concentration risk. d. Loss/reduced principal after a defined event.

Answer: a, b, c and d. The enhanced coupon is compensation for selling credit protection.

8.7–8.9 Market access and suitability

123. [Single choice] An ETN is generally:

a. Unsecured listed debt tracking an index. b. A segregated pool that always owns all constituents. c. A deposit with deposit insurance. d. An ordinary share with voting rights.

Answer: a. Issuer credit risk is central.

124. [Multiple response] Before buying a structured note, assess:

a. Liquidity/lock-up and early termination. b. Terms, fees and settlement. c. Issuer/SPV, collateral and recourse. d. Risk/return, currency and investor objective.

Answer: a, b, c and d. A high coupon alone is insufficient.

125. [Single choice] A PHS should prominently explain:

- a. Key features, suitability, key risks and potential loss of principal. b. Only the issuer's marketing slogan. c. Only historical performance. d. No definitions or contact details.

Answer: a. The PHS exists to make the product understandable.

Chapter 9 — Structured Funds and ETFs

126. [Single choice] A structured fund is generally:

- a. A CIS combining assets and/or derivatives to produce a targeted risk-return outcome. b. Always a direct bank deposit. c. Unregulated by any CIS framework. d. A single ordinary share.

Answer: a. Governance, custody, NAV and disclosure remain important.

127. [Multiple response] Fund performance/assessment can involve:

- a. NAV and total return. b. TER/management and other costs. c. Sharpe ratio and tracking error. d. Underlying, share class and distribution terms.

Answer: a, b, c and d. No single ratio captures all fund risks.

128. [Calculation] A CPPI fund is worth \$100, floor \$85, crash size 20%. Risky allocation is:

- a. \$15. b. \$25. c. \$75. d. \$85.

Answer: c. Multiplier = 5; cushion = \$15; risky = $5 \times 15 = \$75$.

129. [Scenario] In a prolonged range-bound market, CPPI may:

- a. Buy risky assets after rises and sell after falls. b. Always buy low and sell high. c. Guarantee full participation in every recovery. d. Remove floor/gap risk.

Answer: a. Rebalancing can create whipsaw and cash-lock risk.

130. [Multiple response] ETF risks include:

- a. Tracking error and NAV premium/discount. b. Bid-ask, liquidity, roll and cash drag. c. FX and counter-party/collateral risk where synthetic. d. Market, leverage/reset and closure risk.

Answer: a, b, c and d. Exchange trading does not eliminate product risk.

Chapter 10 — Contracts for Differences

10.1–10.5 Definition, characteristics and models

131. [Single choice] A CFD investor normally:

- a. Owns the underlying share and receives voting rights. b. Gains/loses the cash difference between opening and closing values without physical ownership. c. Receives a fixed deposit rate. d. Cannot take a short position.

Answer: b. Dividend/corporate-action adjustments may apply, but ownership and voting rights do not.

132. [Multiple response] CFD features may include:

- a. Leverage and margin. b. Long/short flexibility and cash settlement. c. Global underlying access. d. Financing, rollover and corporate-action adjustments.

Answer: a, b, c and d. Benefits and costs must be assessed together.

133. [Single choice] The source identifies which CFD model as predominant in Singapore?

- a. Direct market access (DMA). b. Physical delivery only. c. An unlisted mutual fund. d. A gold-storage model.

Answer: a. Market-maker and exchange-traded models also exist.

134. [Multiple response] The CFD provider should make clear:

a. Initial/maintenance margin. b. Margin-call and liquidation procedures. c. Financing, commission, GST and rollover costs. d. RDS acknowledgement and client liability for shortfall.

Answer: a, b, c and d. The smaller initial outlay does not cap the loss.

10.6 Mechanics, orders and costs

135. [Single choice] A market order seeks:

a. A guaranteed price chosen by the investor. b. The best available bid/ask at execution. c. A price only after expiry. d. A physical share certificate.

Answer: b. Price can move before execution.

136. [Single choice] A limit buy at \$10.00 when ask is \$10.02 will normally:

a. Execute at \$10.02 immediately. b. Queue at \$10.00 or lower. c. Trigger a stop at \$9.50. d. Become a short sale.

Answer: b. The price condition controls execution.

137. [Scenario] A long CFD stop-loss is set at \$9.50, but the market gaps from \$9.60 to \$9.30. The investor should understand that:

a. Execution may occur worse than \$9.50 unless a guaranteed stop applies. b. The stop guarantees \$9.50. c. The provider must pay the gap. d. The position becomes a long option.

Answer: a. Stop orders are vulnerable to gaps and slippage.

138. [Calculation] An investor buys 10,000 CFDs at \$2.00 and closes at \$2.20. Commission is 0.4%, GST on commission 8%, financing 5% p.a. for 10 days. The source's approximate net profit is:

a. \$2,000.00. b. \$1,790.78. c. \$209.22. d. \$86.40.

Answer: b. Gross gain \$2,000 less buy/sell costs \$181.44 and financing \$27.78 = \$1,790.78.

139. [Calculation] A short CFD sells 10,000 at \$3.30 and covers at \$3.10. Under the source's 20% margin, 0.4% commission, 8% GST and five-day 6% financing example, ROI on margin is closest to:

a. -27.56%. b. 5.00%. c. 25.70%. d. 100%.

Answer: c. Net profit ≈ \$1,696.02 divided by \$6,600 margin ≈ 25.70%.

10.7–10.9 Global markets and strategies

140. [Multiple response] CFDs may reference:

a. Shares, indices and sectors. b. FX, commodities and government treasuries. c. ETFs, volatility and real estate. d. Only Singapore-listed common shares.

Answer: a, b and c. Availability depends on the provider.

141. [Single choice] Dividend-capture CFD traders generally seek shares with:

a. Strong earnings and high payout potential. b. No dividends and no liquidity. c. Guaranteed price appreciation. d. Only a stock split.

Answer: a. The price may not fall by the full dividend, but the trade remains risky and cost-sensitive.

142. [Scenario] A pairs trade is "market neutral" because:

a. It is guaranteed profitable. b. Long and short related positions aim to offset broad market direction. c. It has no commissions. d. Both legs are always long.

Answer: b. Correlation can break and both legs can lose.

143. [Multiple response] Pairs-trading risks include:

- a. Relationships may not revert. b. One or both assets may move adversely. c. Double commissions/financing. d. Deal risk in merger arbitrage.

Answer: a, b, c and d. "Market neutral" does not mean risk-free.

144. [Single choice] Compared with equity futures, CFDs generally:

- a. Have provider/OTC counterparty risk, can be rolled and explicitly charge financing. b. Have fixed exchange expiry and no financing. c. Receive no dividend adjustments. d. Cannot be short.

Answer: a. Equity futures are exchange-traded, fixed maturity, and financing is embedded in pricing.

Chapter 11 — Key Products and Investment Risks

11.1 Basic product risks

145. [Multiple response] Futures risks include:

- a. Basis risk. b. Liquidity/lock-limit risk. c. Leverage and margin-call risk. d. Guaranteed loss limited to initial margin.

Answer: a, b and c. Loss can exceed initial margin.

146. [Single choice] Open interest helps assess futures:

- a. Liquidity and the number of contracts still open. b. The issuer's dividend policy. c. The option's theta only. d. Deposit-insurance coverage.

Answer: a. Volume and open interest are useful liquidity indicators.

147. [Multiple response] Option holders may:

- a. Lose the entire premium. b. Face time decay and illiquidity. c. Be affected by exercise terms and trading halts. d. Have unlimited losses as ordinary long-option holders.

Answer: a, b and c. A long option's loss is generally limited to premium, subject to costs/issuer failure.

148. [Single choice] Naked option writers are exposed to:

- a. Potentially unlimited short-call loss and large short-put loss. b. Only the premium paid. c. No exercise risk. d. Guaranteed profit.

Answer: a. American exercise can also change timing of the obligation.

149. [Multiple response] Bond-option risk can reflect:

- a. Interest rates. b. Credit spreads and rating changes. c. Liquidity and embedded bond options. d. Sovereign/macroeconomic conditions.

Answer: a, b, c and d. Bond volatility may be lower than FX/commodity volatility but specific credit risk can be large.

150. [Single choice] Why is an OTC currency option especially sensitive to counterparty risk?

- a. The contract may require delivery/settlement of large currency notional amounts. b. It has no notional value. c. FX markets never move. d. It is always cleared by a CCP.

Answer: a. Large notional and 24-hour market movement increase monitoring requirements.

151. [Multiple response] Structured warrants add which risks beyond a simple share holding?

- a. Issuer credit. b. Leverage and time decay. c. Volatility, liquidity and settlement. d. Underlying market/currency risk.

Answer: a, b, c and d. They do not give ordinary voting/dividend rights.

11.2 Structured-product risks

152. [Multiple response] Structured products can expose investors to:

a. Market and structure risk. b. Credit/counterparty and liquidity risk. c. Early termination/reinvestment risk. d. Volatility, correlation, FX, legal and transactional risk.

Answer: a, b, c and d. Combining components creates layered risk.

153. [Single choice] In a CPPI structure that reaches the floor after a sharp fall, the fund may:

a. Move entirely to the risk-free asset and miss later risky-asset recovery. b. Automatically buy the risky asset at the low. c. Guarantee unlimited upside. d. Eliminate all issuer risk.

Answer: a. This is the cash-lock/gap-to-floor effect.

154. [Single choice] A structured note with a swap between issuer and another institution may expose the investor to:

a. Both issuer and swap-counterparty credit, depending on the documents. b. No credit risk. c. Only the investor's own credit. d. Voting-rights risk.

Answer: a. Determine who bears the swap counterparty risk.

155. [Multiple response] ISDA credit-event categories in the source include:

a. Bankruptcy. b. Failure to pay. c. Restructuring. d. Obligation acceleration/default and repudiation/moratorium.

Answer: a, b, c and d. The exact applicable definition is contractual.

156. [Single choice] Early termination risk means:

a. Selling before maturity may incur bond discount and derivative unwinding/break costs. b. The product always pays full principal immediately. c. The investor receives an extra coupon for exiting. d. Only the underlying equity is affected.

Answer: a. Principal preservation commonly applies only at maturity.

157. [Single choice] Reinvestment risk is greatest when:

a. Coupons/principal are returned and rates have fallen. b. A zero-coupon bond is held to maturity with no interim cash flows. c. Rates rise and all coupons are locked at a higher rate. d. There is no callable feature.

Answer: a. The returned cash may earn less than the original YTM.

158. [Scenario] A worst-of credit basket contains highly correlated banks. One bank defaults during a systemic shock. The main extra risk is:

a. Correlation/default clustering. b. Guaranteed diversification. c. Zero liquidity risk. d. Only a dividend adjustment.

Answer: a. High correlation can make several names deteriorate together.

159. [Single choice] Legal risk is relevant because:

a. A note holder may own a claim on the issuer, not the underlying assets, and creditor priority matters. b. Every note holder automatically owns the collateral. c. Contract wording never affects outcome. d. A PHS replaces all legal documents.

Answer: a. Recourse and priority are document-dependent.

11.3 Controls and 11.4 summary

160. [Multiple response] Futures risk limits may include:

a. Open contracts. b. Maximum loss. c. Maturity and stress-test limits. d. No limits because futures are exchange traded.

Answer: a, b and c. Exchange liquidity does not remove firm-level exposure.

161. [Calculation] A bond has modified duration 2. Yield rises 100 bp. Approximate percentage price change is:
a. +2%. b. -2%. c. -200%. d. 0%.

Answer: b. $\Delta P/P \approx -D \times \Delta Y = -2 \times 1\% = -2\%$.

162. [Calculation] Bond price is \$980 and PVBP is \$1. Yield rises 5 bp. New approximate price is:
a. \$975. b. \$980. c. \$985. d. \$930.

Answer: a. Price falls $5 \times \$1 = \$5$.

163. [Single choice] A 1-day 95% VaR of SGD1m means:

a. There is model-estimated 5% probability of losing more than SGD1m over one day. b. The maximum possible loss is SGD1m. c. The portfolio earns SGD1m every day. d. The probability of any loss is 95%.

Answer: a. VaR is a threshold estimate, not a guarantee or a complete stress test.

164. [Multiple response] Option risk controls may set limits for:

a. Delta and gamma. b. Vega and theta. c. Rho. d. Maturity concentration, book size, premium and intraday exposure.

Answer: a, b, c and d. Greek limits should be linked to scenarios and hedging capacity.

165. [Single choice] A CSA primarily helps manage:

a. Collateral terms for OTC counterparty exposure. b. An ordinary stock split. c. Exchange index construction. d. A fund's dividend.

Answer: a. Settlement/confirmation controls remain necessary.

Chapter 12 — Case Study Applications

12.1 DCI and Chapter 7 application

166. [Calculation] A USD1m DCI pays 11% p.a. for three months. If no conversion applies, principal plus interest is:

a. USD1,011,000. b. USD1,027,500. c. USD1,110,000. d. USD1,330,000.

Answer: b. Interest = $1,000,000 \times 11\% \times 3/12 = 27,500$.

167. [Scenario] A client cannot accept receiving another currency. The best response is:

a. Explain that a DCI may be unsuitable because conversion is part of the payoff. b. Recommend it because the headline yield is high. c. Hide the conversion clause. d. Treat conversion as a free benefit.

Answer: a. Suitability depends on the client's willingness and ability to own the alternate currency.

12.2 Brian and Chapter 9/11 application

168. [Multiple response] Before Brian trades a leveraged downside/volatility strategy, check:

a. Risk willingness and understanding. b. External positions, capacity and credit limits. c. Buffers, margin and stop/offset discipline. d. Current research/market information and profit-taking plan.

Answer: a, b, c and d. Aggressive risk appetite does not justify maximising leverage.

169. [Single choice] If Brian expects a sharp fall and volatility rise, which is generally directionally consistent?

a. Buy an index put and/or long volatility ETF, subject to risks. b. Short a volatility ETF. c. Buy a short-term bullish call only. d. Buy a range-bound short strangle.

Answer: a. Timing, theta, contango and premium risk must still be explained.

12.3 William and Chapter 5/3 application

170. [Multiple response] William's portfolio-protection choices can include:

- a. Buying tailored protective puts.
- b. Shorting a correlated MSCI Singapore future.
- c. Lending shares for a fee.
- d. Buying an ELN to protect against a fall.

Answer: a, b and c. A long ELN/short-put-like structure generally adds downside conversion exposure rather than protection.

171. [Single choice] Why is short MSCI Singapore futures an imperfect hedge for William?

- a. His three stocks form only part of the index and their correlation is not one.
- b. Futures cannot be shorted.
- c. Futures have no MTM.
- d. The portfolio has no equity exposure.

Answer: a. Basis and composition risk remain.

12.4 Mr Sunjoyo and Chapter 8 application

172. [Calculation] An ELN costs SGD975,000 and converts into 80,000 shares. The break-even share price is:

- a. SGD10.00.
- b. SGD12.19.
- c. SGD12.50.
- d. SGD13.30.

Answer: b. $975,000 / 80,000 = 12.1875$, approximately SGD12.19.

173. [Scenario] If the shares finish at SGD12.00, below the strike, the investor should understand that:

- a. The headline 10.66% yield guarantees profit.
- b. The share value is SGD960,000, below the SGD975,000 purchase price before other costs.
- c. The investor automatically receives SGD1m cash.
- d. The note becomes a deposit-insured product.

Answer: b. A short-put-like ELN can lose principal.

12.5 Robert and Chapter 8/7 application

174. [Calculation] A range accrual pays 6% inside for two months and 1% outside for one month of a three-month period. Weighted annualised result is closest to:

- a. 1.00%.
- b. 2.67%.
- c. 4.33%.
- d. 6.00%.

Answer: c. $6 \times 2/3 + 1 \times 1/3 = 4.33\%$.

175. [Multiple response] To make Robert's digital spread cheaper or raise its maximum rate, one might:

- a. Narrow the range.
- b. Skew the range toward one side.
- c. Lower the minimum yield.
- d. Increase maturity, subject to the product economics.

Answer: a, b, c and d. Widening the range generally makes the inside condition more likely and more expensive.

12.6 Harry and Chapter 7 application

176. [Calculation] An accumulator delivers 10,000 shares each day and knocks out on day 13, excluding the knock-out day. Shares accumulated are:

- a. 10,000.
- b. 120,000.
- c. 130,000.
- d. 250,000.

Answer: b. Days 1–12 $\times$ 10,000 = 120,000.

177. [Multiple response] Accumulator risks include:

- a. Purchase obligation below market price.
- b. Capped upside if knock-out occurs.
- c. Margin call/break cost.
- d. Larger quantity under 1 $\times$ 2 gearing.

Answer: a, b, c and d. The investor should be willing to own the maximum quantity at the strike.

12.7 Brandon and Chapter 4 application

178. [Single choice] Brandon expects a large gold move but is uncertain of direction. The most direct strategy is:

- a. Long straddle. b. Short straddle. c. Short put only. d. Covered call only.

Answer: a. Long call plus long put benefits from a sufficiently large move after premiums.

179. [Multiple response] Two-sided volatility combinations can include:

- a. Bull call spread plus bear put spread. b. Bull call spread plus bear call spread. c. Two bearish spreads only. d. Two bullish spreads only.

Answer: a and b. The objective is to have one bullish and one bearish component, subject to cost/overlap.

12.8 Tracy and Chapter 2 application

180. [Single choice] A CMS differs from a vanilla IRS because the floating portion resets against:

- a. A constant-maturity long-term rate. b. A company's dividend. c. The spot equity price only. d. A fixed bond price with no reset.

Answer: a. CMS expresses views on the yield-curve shape.

181. [Scenario] Tracy expects short rates to rise faster than long rates and the curve to flatten. The source's strategy is:

- a. Pay the long-end rate and receive the short-end rate. b. Pay the short-end rate and receive the long-end rate. c. Buy a gold straddle. d. Sell all fixed income.

Answer: a. The trade targets the expected relative movement of the two ends, subject to swap conventions.

Rapid mixed review

182. [Multiple response] Which products can create a large exposure from a relatively small initial outlay?

- a. Futures. b. CFDs. c. Warrants/DLCs. d. Some accumulators and structured notes.

Answer: a, b, c and d. Leverage may magnify both return and loss.

183. [Single choice] The first question to ask about any derivative payoff is:

- a. What is the marketing name? b. What is the underlying and what position/exposure does the investor have? c. Is the coupon headline high? d. Is it listed in a brochure?

Answer: b. Underlying, direction and trigger determine the risk map.

184. [Multiple response] Which are examples of "protection sold" by an investor seeking yield?

- a. Selling a put in a bull ELN. b. Selling a call in a yield-enhancement note. c. Selling credit protection in a CLN. d. Selling a receiver/payer swaption in a structured product.

Answer: a, b, c and d. The enhanced yield is compensation for contingent liability.

185. [Single choice] Which statement is safest for exam calculations?

- a. Ignore the contract multiplier. b. Identify the day-count, notional, multiplier, tick, conversion ratio and settlement convention first. c. Use 365 days for every product. d. Round before calculating the payoff.

Answer: b. The source uses 365 days for Singapore Government Securities and 360 days for other products unless stated otherwise.

186. [Multiple response] A complete suitability explanation should cover:

- a. Best/base/worst-case scenarios. b. Liquidity and early-exit rules. c. Issuer/counterparty and collateral/recourse. d. Fees, leverage, margin and currency.

Answer: a, b, c and d. Good advice explains how the client can lose, not only how the product can earn.