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QUESTION 1

Where there are shared management responsibilities or where an investment or shareholding exists in a broker by a counterparty:

- A. the broker is not obligated to reveal any material connections provided Chinese Walls are in place.
- B. the broker is not required to reveal any connections at all.
- C. the broker is legally obliged to advise his clients of any material connections that exist.
- D. is a matter which is not covered by the Model Code.

Correct Answer: C

QUESTION 2

All other things being equal, if a bank borrows short and lends long what is the effect on the liquidity risk of the bank?

- A. positive
- B. changes only when interest rates levels are high
- C. negative
- D. changes only when interest rates levels are low

Correct Answer: C

QUESTION 3

A customer sells a 3-month Euro Swiss Franc (EUROSWISS) futures contract. Which of the following risks could he be trying to hedge?

- A. An increase in forward USD/CHF
- B. Falling CI-IF interest rates
- C. A decrease in forward USD/CHF
- D. Rising CHF interest rates

Correct Answer: D

QUESTION 4

Which of the following rates represents the highest investment yield in the Euromarket?

- A. Semi-annual bond yield of 3.75%



- B. Annual bond yield of 3.75%
- C. Semi-annual money market yield of 3.75%
- D. Annual money market rate of 3.75%

Correct Answer: C

QUESTION 5

When a broker calls "off" at the very instant a dealer "hits" the broker's price:

- A. The transaction should be concluded.
- B. The broker decides whether or not the deal is done.
- C. ACI's Committee for Professionalism will decide whether the transaction should be concluded.
- D. The transaction should not be concluded.

Correct Answer: D

QUESTION 6

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.

Correct Answer: C

QUESTION 7

7-day USCP is quoted at a rate of discount of 1.75%. What is its true yield?

- A. 1.73%
- B. 1.75%
- C. 1.77%
- D. 1.80%

Correct Answer: B



QUESTION 8

Which statement about modern matched-maturity transfer pricing in banks is correct?

- A. It is now a widely accepted standard that banks should use a single representative transfer price across the entire maturity spectrum.
- B. Modern matched-maturity pricing systems include an additional liquidity surcharge that is specifically applied to more liquid short maturities.
- C. Matched-maturity transfer prices should represent a weighted average cost of capital that incorporates the cost of equity into the cost of borrowed funds.
- D. Modern matched-maturity systems differentiate transfer prices by the maturity of the commitment and also apply a marginal funding cost perspective.

Correct Answer: D

QUESTION 9

In FX trading a "third party beneficiary" is best described as:

- A. the issuer of a payment for the relevant trade distinct from the counterparty
- B. the issuer of a payment for the relevant trade identical to the counterparty
- C. the recipient of a payment for the relevant trade distinct from the counterparty
- D. the recipient of a payment for the relevant trade identical to the counterparty

Correct Answer: C

QUESTION 10

Which of the following cannot produce a capital gain?

- A. Treasury bill
- B. CD
- C. ECP
- D. Classic repo

Correct Answer: D

QUESTION 11

How long does the Model Code recommend that tapes and other records of dealers/brokers be kept?

- A. at least two months



- B. one year
- C. up to one month
- D. at least three months

Correct Answer: A

QUESTION 12

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

Correct Answer: A

QUESTION 13

Which of the following is a function of asset and liability management (ALM)?

- A. coordinated limit management of a financial institution's credit portfolio
- B. running a matched trading book
- C. monitoring credit quality of assets and establishing a early warning system
- D. managing the financial risk of the bank by protecting it from the adverse effects of changing interest rates

Correct Answer: B

QUESTION 14

The Liquidity Coverage Ratio (LCR) in Basel III:

- A. is a new rule that compares liquid asset levels in banks to their available equity capital
- B. spells out a modernized system for calculating the required minimum reserve that banks must hold at the central bank
- C. compares liquid and reliably liquidating assets to expected cash outflows from specified run-off rates for various liability classes under a short-term stress scenario
- D. tied directly into the internal ratings-based approach for determining the liquidity of credit counterparties



Correct Answer: B

QUESTION 15

Prudential regulation of banking book liquidity risk is dealt with by the Basel Committee (Basel II / Basel III) in the context of:

- A. capital adequacy regulations in Pillar 1
- B. market risk and Tier 3 capital elements
- C. internal management procedures subject to supervisory review in Pillar 2
- D. market discipline, disclosure and transparency in Pillar 3

Correct Answer: B

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