Q.1) Consider the following w.r.t. Securities and Exchange Board of India (SEBI).

1. SEBI was established under the Securities and Exchange Board of India act 1992.
2. The Securities Laws (Amendment) Act, 2014 provides for search and seizure after obtaining approval from Union Minister of Finance.
3. National Strategy of Financial Education was initiated by SEBI with a vision of 'a financially and empowered India'.
4. SEBI is part of Financial Stability and Development Council (FSDC).

Select the correct answer

a) 1, 2 and 4 only
b) 1 and 3 only
c) 1, 3 and 4 only
d) 2, 3 and 4 only

Q.1) Solution (c)

It isn't MoF but a magistrate or Judge of a designated court in Mumbai. Rest of the statements are correct. Yes SEBI also has a role in financial inclusion.
Refer Chapter Finance, India Year Book 2016.

Q.2) In 2012 SEBI brought out regulations for Alternative Investment Funds (AIFs). Which of the following is incorrect?

1. Category I AIFs are those who invest in start-ups or early stage ventures or social ventures that government considers socially or economically viable.
2. Category II AIFs are those funds are allowed to invest anywhere in any combination, but cannot take debts, except for day-to-day operation purposes.
3. Category III AIFs are funds that make short-term investments and then sell, like hedge funds, come under this.
4. Union Budget 2015-16 tax pass through has been given for all 3 categories.

Select the correct answer

a) 1, 2 and 3 only
b) 1, 2 and 4 only
c) 1, 3 and 4 only
d) All of the above

Q.2) Solution (a)

Tax pass through has been given for only categories I and II. Rest are correct.

Further reading:

http://www.arthapedia.in/index.php%3Ftitle%3DAlternative_Investment_Funds_(AIFs)

Q.3) Consider the following about Securities Appellate Tribunal (SAT)

1. SAT consists of a presiding officer who is a deputy governor of RBI concerned with money market and capital market.
2. SAT operates under Civil Procedure Code 1908.

Select the correct answer:

a) 1 only
b) 2 only
c) Both 1 and 2
d) None of the above

Q.3) Solution (d)

The presiding officer of SAT is a sitting/retired judge of apex court or sitting/retired chief justice of high court or sitting/retired judge of high court who has completed not less than 7 years of service in office.

SAT is guided by principles of natural justice and is not bound by any penal codes.

Securities Appellate Tribunal is a statutory body established under the provisions of Section 15K of the Securities and Exchange Board of India Act, 1992 to hear and dispose of appeals against orders passed by the Securities and Exchange Board of India or by an adjudicating officer under the Act and to exercise jurisdiction, powers and authority conferred on the Tribunal by or under this Act or any other law for the time being in force.

Q.4) Which of the following are part of the Foreign Investment Promotion Board (FIPB)?

1. Secretary Department of Economic Affairs.
2. Secretary Department of Revenue.
3. Secretary DIPP
4. Principal Secretary to PM
5. Secretary Ministry of Small Scale Industries.

Select the correct answer

a) 1, 2, 3 and 4 only
b) 1, 2, 3 and 5 only
c) 1, 2, 4 and 5 only
d) All of the above

Q.4) Solution (b)

Principal Secretary to PM is not a part.

The permanent members of the Board are the following:

1. Secretary to the Government of India, DEA, Ministry of Finance - Chairman

2. Secretary to the Government of India, Department of Industrial Policy and Promotion (DIPP).
3. Secretary to the Government of India, Department of Commerce (DoC).
4. Secretary to the Government of India (Economic Relations), Ministry of External Affairs (MEA).
5. Secretary to the Government of India, Ministry of Overseas Indian Affairs (MOIA)
6. Secretary, Department of Revenue (DoR), Ministry of Finance (co-opted permanently).
7. Secretary, Ministry of Small and Medium & Micro Enterprises (co-opted permanently).

The Board may co-opt other Secretaries to the Government of India and officials of financial institutions, banks and professional experts in industry and commerce, when required. The Secretary to the Government of India, Ministry of Small, Medium and Micro Enterprises and the Secretary to the Government of India, Department of Revenue have been co-opted on the Board.

Q.5) FDI is prohibited in which of the following?

1. Lottery business
2. Business of Chit funds.
3. Nidhi Company
4. Manufacturing of Cigars, Cheroots and cigarettes of tobacco
5. Gambling and betting.

Select the correct answer

a) 1, 2 and 4 only
b) 1, 3 and 5 only
c) 1, 2 and 5 only
d) All of the above

Q.5) Solution (d)

SECTORS WHERE FOREIGN DIRECT INVESTMENT IS PROHIBITED:

- Lottery Business including Government /private lottery, online lotteries, etc.
- Gambling and Betting including casinos etc.
- Chit funds
- Nidhi company-(borrowing from members and lending to members only).
- Trading in Transferable Development Rights (TDRs)
- Real Estate Business (other than construction development) or Construction of Farm Houses
- Manufacturing of Cigars, cheroots, cigarillos and cigarettes, of tobacco or of tobacco substitutes
- Activities / sectors not open to private sector investment e.g. Atomic Energy and Railway Transport (other than construction, operation and maintenance of
  (i) Suburban corridor projects through PPP,
  (ii) High speed train projects,
  (iii) Dedicated freight lines,
  (iv) Rolling stock including train sets, and locomotives/coaches manufacturing and maintenance facilities,
  (v) Railway Electrification,
  (vi) Signaling systems,
  (vii) Freight terminals,
  (viii) Passenger terminals,
  (ix) Infrastructure in industrial park pertaining to railway line/sidings including electrified railway lines and connectivities to main railway line and
  (x) Mass Rapid Transport Systems.)
- Services like legal, book keeping, accounting & auditing.

Further reading: http://www.makeinindia.com/policy/foreign-direct-investment

Q.6) Which of the following is incorrect about FIPB?

a) The Foreign Investment Promotion Board (FIPB), presently is housed in the Department of Economic Affairs, Ministry of Finance, is an inter-ministerial body.
b) The FIPB was initially constituted under the Prime Minister's Office (PMO) in the wake of the economic liberalization drive of the early 1990s.
c) The Board was reconstituted in 1996 with transfer of the FIPB to DIPP
d) The approval limit for FIPB is Rs. 2000crore beyond which it needs approval of Union Cabinet.

Q.6) Solution (d)

http://fipb.gov.in/AboutUs.aspx

The information here with approval limits is a little outdated. The government recently raised it to 3000 crores and beyond which it is approved by CCEA and not cabinet.

Q.7) Which of the following is correct about National Investment and Infrastructure Fund (NIIF)?

a) NIIF was set up as a NBFC, to raise debt to invest in the equity of infrastructure finance companies such as Indian Rail Finance Corporation (IRFC) and National Housing Bank (NHB).
b) The objective of NIIF would be to maximize economic impact mainly through infrastructure development in commercially viable projects, only greenfield and not brownfield, but including stalled projects.
c) The NIIF will be established as one or more Alternate Investment Funds (AIF) under the SEBI Regulations.
d) The Government had approved the creation of NIIF with the aim to attract investment from international sources and not domestic for maximizing economic impact.

Q.7) Solution (c)

NIIF is set up as a trust and not NBFC. It is for both brown and Greenfield projects. NIIF is applicable for both domestic and international sources.

Further reading:

http://arthapedia.in/index.php%3Ftitle%3DNational_Investment_and_Infrastructure_Fund_(NIIF)

Q.8) Consider the following about buyback of shares.

1. A buyback is the repurchase of outstanding shares (repurchase) by a company in order to reduce the number of shares on the market.
2. Companies will buy back shares either to increase the value of shares still available (reducing supply), or to eliminate any threats by shareholders who may be looking for a controlling stake.

Select the correct answer:

a) 1 only
b) 2 only
c) Both 1 and 2
d) None of the above

Q.8) Solution (c)

A buyback allows companies to invest in themselves. By reducing the number of shares outstanding on the market, buybacks increase the proportion of shares a company owns. Buybacks can be carried out in two ways:

1. Shareholders may be presented with a tender offer whereby they have the option to submit (or tender) a portion or all of their shares within a certain time frame and at a premium to the

current market price. This premium compensates investors for tendering their shares rather than holding on to them.

2. Companies buy back shares on the open market over an extended period of time.

Further reading: http://www.yourarticlelibrary.com/accounting/buy-back-shares/buy-back-shares-meaning-reasons-aspects-and-other-details/62687/

Q.9) Recently, the market regulator Securities and Exchange Board of India (SEBI) barred 13 entities from the securities market for five years. They were accused of manipulating Global Depository Receipts (GDRs) issued by Indian companies. Which of the following are correct about GDRs?

1. Global Depository Receipts (GDRs) is a mechanism which allows one to buy and sell shares of a foreign company without having to bother about opening a foreign brokerage account.
2. Global Depository Receipts (GDRs) is a mechanism which allows one to buy and sell shares of a foreign company without having to bother about opening a foreign brokerage account.
3. GDRs are usually backed by sovereign governments of that country that provide companies, investors and traders opportunities to make global investments.
4. Country's prone to political unrest or geopolitical conflicts can severely impact the valuations of a company, resulting in GDR valuations losses for an investor who may have been betting on that particular company.

Select the correct answer

a) 1 and 2 only
b) 1, 2 and 3 only
c) 1, 2 and 4 only
d) All of the above

Q.9) Solution (c)

It is not the governments that back the GDRs. GDRs are usually backed by depository banks that provide companies, investors and traders opportunities to make global investments. These are banks whose primary task is to hold shares of companies based in another country. Such banks essentially sell the GDRs. They also ensure that investors receive their dividends and capital gains. Depository banks also handle all tax-related issues in the company's home country. Since all GDR transactions have to go through a depository bank, investments made in them are safe. However, their valuations are always associated with normal market risks.

Further reading: https://in.finance.yahoo.com/news/all-you-need-to-know-about-global-depository-receipts-043746355.html

Q.10) Consider the following about Participatory Notes (P-Notes).

1. "P-notes," are financial instruments used by investors or hedge funds that are not registered with the Securities and Exchange Board of India (SEBI) to invest in Indian securities.
2. India has permitted P Notes recently under the expert suggestion of top economist Subramaniam Swamy who considers P Notes will bring back all black money stashed away.

Select the correct answer:

a) 1 only
b) 2 only
c) Both 1 and 2
d) None of the above

Q.10) Solution (a)

Who doesn't know Mr. Swamy!!! There is no such... P Notes are considered dangerous and are not allowed.

Participatory notes, also referred to as "P-notes," are financial instruments used by investors or hedge funds that are not registered with the Securities and Exchange Board of India (SEBI) to invest in Indian securities. Any dividends or capital gains collected from the underlying securities go back to the investors. Indian regulators are against participatory notes because they fear that hedge funds acting through participatory notes will cause economic volatility in India's exchanges.

Further reading: http://www.thehindubusinessline.com/todays-paper/why-participatory-notes-are-dangerous/article1672845.ece

Q.11) Consider the following statements:

1. Capital market loans are used by industries for fixed investment.
2. In principle Capital market is a short term loanable fund.

Which of the above statements are correct?

a) 1 only
b) 2 only
c) Both 1 and 2
d) Neither 1 nor 2

Q.11) Solution (a)

The Indian capital market is the market for long term loanable funds as distinct from money market which deals with short term funds.

It refers to the facilities and institutional arrangements for borrowing and lending 'term funds'- medium and long term funds. In principle capital market loans are used by industries mainly for fixed investments. It does not deal in capital goods but is concerned with raising money capital.

Q.12) Gilt-Edged securities are the most sought after type securities. Which of the following statements are correct about Gilt-Edged securities?

1. *Gilt-edged* securities are a high-grade investment with very low risk with confirmed dividend or interest returns.
2. They are based on platinum, gold and silver.

Select the code from following:

a) 1 only
b) 2 only
c) Both 1 and 2
d) Neither 1 nor 2

Q.12) Solution (a)

Government securities are instruments issued by the government to borrow money from the market. They are also known as gilts or gilt edged securities

"Government security" means a security created and issued by the Government for the purpose of raising a public loan or for any other purpose as may be notified by the Government in the Official Gazette and having one of the forms mentioned in the Government Securities Act, 2006.

Q.13) Indian companies are allowed to access global finance market and benefit from the lower cost of funds. They have been permitted to raise resources through which of the following means?

1. American Depository Receipts (ADRs)
2. Global Depository Receipts (GDRs)
3. Foreign Currency Convertible Bonds (FCCBs)
4. External Commercial Borrowings (ECBs)

Select the code from below:

a) 1 and 2
b) 3 and 4
c) 1,2 and 4
d) All of the above

Q.13) Solution (d)

Indian companies are allowed to access global finance market and benefit from the lower cost of funds. They have been permitted to raise resources through issue of American Depository Receipts (ADRs), Global Depository Receipts (GDRs), Foreign Currency Convertible Bonds (FCCBs) and External Commercial Borrowings (ECBs). Further Indian financial system is opened up for investments of foreign funds through Non-Resident Indians (NRIs), Foreign Institutional investors (FIIs), and Overseas Corporate Bodies (OCBs).

A foreign currency convertible bond (FCCB) is a type of convertible bond issued in a currency different than the issuer's domestic currency. In other words, the money being raised by the issuing company is in the form of a foreign currency. A convertible bond is a mix between a debt and equity instrument. It acts like a bond by making regular coupon and principal payments, but these bonds also give the bondholder the option to convert the bond into stock.

Q.14) Buy Back of shares is a method of financial engineering. It is process which enables the company to go back to its share holders and offer to purchase the shares by them. Which of the following statements are correct about the process of buy-back of shares?

1. When a company faces a cash crunch it buys back its shares.
2. Buy Back is used as a defence mechanism when there is a threat of corporate takeover. It provides a safeguard against hostile takeover by increasing promoter's holding.
3. Buy Back can divert away the company's funds from productive investments.
4. A company can buy its shares every year with subject to the satisfaction of other conditions like debt-equity ratio, limits of buy back etc.

Select the code from the following:

a) 1,2 and 3
b) 2,3 and 4
c) 1,3 and 4
d) All of the above

Q.14) Solution (b)

A company buys back its shares when it has access of cash.

One of the negative effects of buy back can be that it might divert away the company's funds from productive investments.

Q.15) A 'Commercial Paper' is an important instrument in the money market. Which of the following statements are correct about 'Commercial Papers'?

1. *Commercial paper* is an unsecured, short-term debt instrument issued by a corporation, typically for the financing of accounts receivable, inventories and meeting short-term liabilities.
2. Commercial papers are usually sold at a discount from the face value.
3. It is not backed by collateral, only firms with excellent credit ratings from a recognized credit rating agency will be able to sell their commercial paper at a reasonable price.

Select the code from the following:

a) 1 and 2
b) 2 and 3
c) 1 and 3
d) All of the above

Q.15) Solution (d)

Commercial paper is a money-market security issued (sold) by large corporations to obtain funds to meet short-term debt obligations (for example, payroll), and is backed only by an issuing bank or company promise to pay the face amount on the maturity date specified on the note. Since it is not backed by collateral, only firms with excellent credit ratings from a recognized credit rating agency will be able to sell their commercial paper at a reasonable price. Commercial paper is usually sold at a discount from face value, and generally carries lower interest repayment rates than bonds due to the shorter maturities of commercial paper. Typically, the longer the maturity on a note, the higher the interest rate the issuing institution pays. Interest rates fluctuate with market conditions, but are typically lower than banks' rates.

Q.16) Which of the following statements regarding 'Certificate of Deposits' are correct?

1. Whenever a big corporation wants to open an account in RBI, it needs to take a prior permission from the Governor. After assessing the performance of the company and its

market rating, the corporation is issued a certificate by the bank, called 'Certificate of Deposit'.

2. Certificate of Deposit (CD) refers to a money market instrument, which is negotiable and equivalent to a promissory note.

Select the code from below:

a) 1 only
b) 2 only
c) Both 1 and 2
d) Neither 1 nor 2

Q.16) Solution (b)

Certificate of Deposit (CD) refers to a money market instrument, which is negotiable and equivalent to a promissory note. All scheduled commercial banks excluding Regional Rural Banks (RRBs) and Local Area Banks (LABs) and Select All India Financial Institutions permitted by RBI are eligible to issue certificates of deposit.
Statement (1) is totally absurd. Nothing like that exist.

Q.17) SEBI has established a Foreign Portfolio Investor Regulatory Framework. Which of the following statements are correct about FPIs according to this framework?

1. All existing Foreign Institutional Investors (FIIs) and QFIs are to be merged into one category called FPI.
2. An applicant desirous of FPI registration should not be a resident in India or a Non-Resident Indian.
3. FPI registration is to be undertaken and granted by Designated Depository Participants (DDPs) on behalf of SEBI.
4. The registration of FPI is temporary and has to be renewed yearly.

Which of the above statements are correct?

a) 1,2 and 3
b) 2,3 and 4
c) 1,3 and 4

d) All of the above

Q.17) Solution (a)

An FPI has been defined to mean a person who satisfies the prescribed eligibility criteria and has been registered under the FPI Regulations. All existing Foreign Institutional Investors (FIIs) and QFIs are to be merged into one category called FPI.

Registration of a FPI
•FPI registration is to be undertaken and granted by Designated Depository Participants (DDPs) on behalf of SEBI.
•Registration is to be granted within 30 days of application, subject to requisite information being provided.
•Registration will be permanent unless suspended or cancelled.

Q.18) Consider the following statements regarding Treasury bills:

1. Treasury bills are issued by the RBI on behalf of the government of India.
2. Treasury bills are issued through auctions and for a period of 91 days only.
3. State governments are also allowed to issue Treasury bills.
4. Treasury bills are available for a minimum amount of 1 lakh and then in multiples of 25000.

Which of the above statements are incorrect?

a) 1 only
b) 2,3 and 4
c) 1,2 and 3
d) None of the above

Q.18) Solution (b)

Treasury Bill Market (T - Bills):-
This market deals in Treasury Bills of short term duration issued by RBI on behalf of Government of India. At present three types of treasury bills are issued through auctions, namely 91 day, 182 day and364day treasury bills. State government does not issue any treasury

bills. Interest is determined by market forces. Treasury bills are available for a minimum amount of Rs. 25,000 and in multiples of Rs. 25,000. Periodic auctions are held for their Issue.
T-bills are highly liquid, readily available; there is absence of risk of default. In India T-bills have narrow market and are undeveloped. Commercial Banks, Primary Dealers, Mutual Funds, Corporates, Financial Institutions, Provident or Pension Funds and Insurance Companies can participate in T-bills market.

Q.19) Most of the trading in the Indian stock market takes place on its two stock exchanges: the Bombay Stock Exchange (BSE) and the National Stock Exchange (NSE). The BSE has been in existence since 1875. The NSE, on the other hand, was founded in 1992 and started trading in 1994. Which of the following statements are correct about the stock exchanges of India?

1. Both exchanges follow the same trading mechanism, trading hours and settlement process.
2. The number of firms listed in NSE is almost three times than they are listed in BSE.
3. NSE enjoys almost a complete monopoly in Derivative trading.

Select the code from following:

a) 1 and 2
b) 2 and 3
c) 1 and 3
d) All of the above

Q.19) Solution (c)

The number of firms listed in NSE is almost one third than that of BSE.

Q.20) Which of the following are the characteristics of a 'Bull' Market?

1. In a bull market, there is a weak demand and strong supply of securities.
2. Share prices will rise as investors compete to obtain available equity.

Select the code from the following:

a) 1 only
b) 2 only
c) Both 1 and 2

d) Neither 1 nor 2

Q.20) Solution (b)

In a bull market, we see strong demand and weak supply for securities. In other words, many investors are wishing to buy securities while few are willing to sell. As a result, share prices will rise as investors compete to obtain available equity. In a bear market, the opposite is true as more people are looking to sell than buy. The demand is significantly lower than supply and, as a result, share prices drop.