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# ACI Operations Certificate challenging

## ACI 3I0-013

**Version Demo**

**Total Demo Questions: 42**

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# Topic Break Down

| Topic | No. of Questions |
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| Topic 1, Volume A | 103 |
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| Topic 4, Volume D | 91 |
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QUESTION NO: 1

In a scenario where long-term interest rates are higher than short-term interest rates, the yield curve would best be described as:

**A.** Flat

**B.** Negative or inverse

**C.** Positive

**D.** Neutral

**ANSWER: C**

**Explanation:**

**Positive** is correct because a yield curve plots interest rates (or yields) for comparable debt securities across different maturities. When longer-term rates exceed shorter-term rates, yields rise as maturity lengthens, producing an upward-sloping curve. This is commonly called a normal or positive yield curve. The additional yield at longer maturities generally reflects investors' requirement for compensation for committing funds for a longer period, including exposure to interest-rate changes and inflation uncertainty. In operations and financial-market terminology, the key relationship is the direction of rates across maturities: higher long-term interest rates than short-term rates means a positive slope. Yield-curve shape is relevant to market participants because it informs borrowing costs, valuation, liquidity planning, and expectations embedded in interest-rate markets. The Federal Reserve describes the Treasury yield curve as showing the relationship between yields and maturity dates, while the SEC's investor guidance explains that yields can vary according to a bond's maturity and market conditions. See the U.S. Treasury daily yield curve resource and the SEC's bond investor bulletin.

**QUESTION NO: 2**

You have been given collateral. In which case would you be least concerned about insisting on a "haircut"?

**A.** Non-cash emerging markets collateral

**B.** Cash collateral in JPY, your base currency is GBP

**C.** Cash collateral in USD, your base currency is USD

**D.** Non-cash high yield collateral

**ANSWER: C**

**Explanation:**

Cash collateral in USD, your base currency is USD is the case in which a haircut is least necessary. A collateral haircut is a risk buffer applied to the collateral value to ensure that, if a counterparty defaults, the secured party can liquidate or apply the collateral and still cover the exposure. The principal reasons for a haircut are potential declines in the collateral's market value, liquidity constraints or liquidation costs, and foreign-exchange movements between the collateral currency and the currency in which exposure is measured. USD cash has a stable nominal value of one USD per USD and can normally be applied immediately, so it does not introduce a market-price volatility risk. Where the secured party's base currency and exposure valuation are also USD, there is no currency mismatch and therefore no FX risk requiring an additional buffer. This makes same-currency cash the cleanest form of collateral from a valuation and operational perspective. International margin standards recognise that haircuts are designed to address market and currency risks, including an additional haircut where collateral is denominated in a currency different from the relevant obligation. See the BCBS-IOSCO margin requirements standard and the ISDA Initial Margin resources.

**QUESTION NO: 3**

Loan/deposit input and mismatch analysis capability belongs to which module in a treasury system?

**A.** The FX spot and forward dealing input and processing module

**B.** Standard back office features

**C.** The money market dealing and processing module

**D.** The securities trading and processing module

**ANSWER: C**

**Explanation:**

The money market dealing and processing module is correct because loans and deposits are core money-market products. This module supports entering, validating, and maintaining the commercial terms of borrowing and lending transactions, such as counterparties, currencies, principal amounts, interest rates, value dates, maturity dates, and settlement instructions. Once those transactions have been captured, their cash flows can be included in maturity and liquidity reporting. Mismatch analysis uses the contractual start and end dates, repricing characteristics, and expected cash movements of loans and deposits to identify funding gaps or excesses across time buckets. That information enables treasury staff to monitor short-term liquidity positions and manage the maturity profile of funding and placements.

In operational terms, the same processing area also provides the controls needed to move a money-market deal from trade capture through confirmation, settlement, reconciliation, and lifecycle processing. ACI's Operations Certificate covers the operational processing and control environment for financial-market products, including money-market activity; see the ACI Operations Certificate. ACI's broader qualification information is available through the ACI education and qualifications pages.

**QUESTION NO: 4**

A bank responsible for making due payments of principal and interest on a bond is called the

**A.** Purchase agent

**B.** Paying agent

**C.** Fiscal agent

**D.** Market maker

**ANSWER: B**

**Explanation:**

**Paying agent** is correct. In a bond issue, the paying agent is typically a bank or trust company appointed under the bond documentation to administer scheduled payments owed to bondholders. Its central operational responsibility is to receive funds from the issuer and distribute interest (coupon) payments when due and repay principal at maturity or according to the stated redemption schedule. The paying agent maintains the payment process and relevant records, helping ensure that investors receive the amounts to which they are entitled under the terms of the security. Depending on the issue structure, the same institution may perform additional agency functions, but the term "paying agent" specifically identifies the party responsible for making principal and interest payments. This is a standard role in debt capital markets and aligns with regulatory descriptions of the payment mechanics for corporate debt securities. See the U.S. Securities and Exchange Commission's guide to reading bond information and the U.S. Code provisions describing payment-agent functions in certain bond contexts at 31 U.S.C. § 3121.

**QUESTION NO: 5**

A 7% bond, maturing in 10 years, is selling at 92.00. What is its current yield?

**A.** 7.61%

**B.** 6.40%

**C.** 7%

**D.** The yield cannot be determined

**ANSWER: A**

**Explanation:**

The correct answer is **7.61%**. Current yield measures the annual interest income from a bond relative to its present market price; it does not incorporate the bond's remaining maturity or any gain or loss that may result when principal is repaid at maturity. Assuming the usual par value of 100, a 7% coupon bond pays annual interest of 7.00. A quoted price of 92.00 means the bond is trading for 92.00 per 100 of par value. The calculation is therefore annual coupon income divided by current market price: 7.00 ÷ 92.00 = 0.076087. Expressed as a percentage and rounded to two decimal places, this equals 7.61%. Because the bond is priced below par, its current yield is higher than its stated 7% coupon rate: the same annual 7.00 coupon payment is received for a lower purchase price. The 10-year maturity would be relevant to a yield-to-maturity calculation, but current yield uses only the annual coupon payment and the bond's current price. FINRA describes current yield as annual interest divided by the bond's current market price: FINRA Bond Yields. Additional bond-yield terminology is available from Investor.gov.

**QUESTION NO: 6**

Operational efficiency, STP rates, quality and control effectiveness are the main indicators of operational performance. With whom and how often should they be reviewed?

**A.** On a monthly basis with senior management and operations

**B.** At least monthly with compliance and risk management; on a more frequent and regular basis within operations

**C.** Quarterly with senior management and on a monthly basis within operations

**D.** At least monthly with senior management and on a more frequent and regular basis within operations

**ANSWER: D**

**Explanation:**

At least monthly with senior management and on a more frequent and regular basis within operations is correct because operational-performance measures need both timely operational oversight and formal management accountability. Operational teams should review measures such as efficiency, straight-through-processing rates, quality outcomes, exceptions, and control effectiveness frequently enough to identify emerging processing issues, investigate root causes, and implement corrective action before service, financial, or control impacts become material. The precise internal cadence may reflect volumes, risk, and the nature of the process, but it should be regular and more frequent than the senior-management reporting cycle.

Senior management requires a consolidated monthly view to oversee whether operations are meeting agreed objectives, whether material trends or control concerns require escalation, and whether sufficient resources or remediation decisions are needed. This structure creates a clear line from detailed day-to-day performance management to accountable governance. It is consistent with the Basel Committee principle that risk data and reporting should support timely, accurate, and meaningful management decision-making, as described in BCBS 239. It also aligns with the ACI's operational-risk and controls focus in its professional education resources: ACI Financial Markets Association.

**QUESTION NO: 7**

How is a call money market transaction generally confirmed?

**A.** By a SWIFT MT 320

**B.** By a SWIFT MT 330

**C.** By a SWIFT MT 340

**D.** By a SWIFT MT 360

**ANSWER: B**

**Explanation:**

By a SWIFT MT 330 is correct because MT 330 is the ISO 15022 FIN message specifically designated for a call or notice loan/deposit confirmation. A call money transaction is a borrowing or deposit arrangement that is repayable on demand or subject to an agreed notice period, rather than having a fixed maturity date established at trade inception. The confirmation must therefore communicate the agreed contractual details for this type of transaction, including the parties, principal amount, currency, interest-rate terms, value date, and the call or notice conditions that govern repayment. MT 330 provides the standardized message structure used between financial institutions to document and affirm those terms operationally. Its use supports timely matching and reconciliation, gives both counterparties an auditable record of the trade, and helps ensure that settlement, interest accrual, and any subsequent repayment notice are processed against consistent agreed data. SWIFT categorizes these treasury-market confirmation messages within its ISO 15022 standards framework; see SWIFT ISO 15022 standards and the SWIFT Category 3 message reference.

**QUESTION NO: 8**

The depositary of your securities:

**A.** Is responsible only for the settlement of those securities

**B.** Is responsible only for safeguarding the securities that you have on your account

**C.** Is responsible for safeguarding both the securities that you have on your account and their settlement

**D.** Is never responsible for safeguarding securities

**ANSWER: C**

**Explanation:**

Is responsible for safeguarding both the securities that you have on your account and their settlement. A securities depositary, commonly operating as a central securities depository or through a custodian arrangement, maintains securities in book-entry form and records the holdings credited to participants' or clients' accounts. This safekeeping function preserves the integrity of ownership records and supports the protection and administration of the securities held.

Its role also extends to the post-trade settlement process. Following a securities transaction, the depositary's systems enable the transfer of securities between the seller's and buyer's accounts, normally coordinated with the associated cash payment through delivery-versus-payment arrangements. Combining secure custody records with settlement processing is fundamental to reducing operational and principal risk in securities markets. The European Central Bank describes central securities depositories as institutions that operate securities settlement systems and provide central safekeeping services; see the ECB's overview of CSDs. The legal framework for these core functions is also set out in the EU's Central Securities Depositories Regulation.

**QUESTION NO: 9**

When is the settlement amount of a FRA normally payable?

**A.** At the beginning of the forward period

**B.** On the trade date

**C.** On the maturity (final) date

**D.** At any time before the contracts maturity date

**ANSWER: A**

**Explanation:**

The settlement amount of a forward rate agreement is normally payable **at the beginning of the forward period**, also called the FRA settlement date or value date. A FRA fixes today the interest rate that will apply to a notional borrowing or lending over a future interest period. At the start of that period, the relevant reference rate is observed and compared with the contractual FRA rate. The resulting interest-rate difference for the forthcoming period is calculated and then discounted back to the settlement date, because the payment is being made before the underlying period has elapsed. Only this discounted net difference changes hands; the notional principal is not exchanged. This convention allows the party with a future borrowing or lending exposure to know and realize the economic effect of the agreed rate at the point the specified future period begins. It is therefore important to distinguish the settlement date from the end date of the reference interest period: the latter is used in determining the length of the interest calculation period, while the cash settlement is conventionally made at its beginning. See the descriptions of FRA settlement in the Investopedia FRA overview and the Corporate Finance Institute FRA guide.

## QUESTION NO: 10

A bank in Luxembourg has dealt an interbank money market trade with a Canadian bank and must pay USD. Whom does the Luxembourg bank you instruct for payment?

**A.** Its correspondent bank in Canada

**B.** Its national central bank

**C.** The European Central Bank

**D.** Its correspondent bank in the USA

## ANSWER: D

**Explanation:**

Its correspondent bank in the USA is correct because the payment currency, rather than the location or nationality of the beneficiary bank, determines the normal settlement route. A Luxembourg bank making a US-dollar payment generally maintains a US-dollar nostro account with a correspondent bank in the United States. It sends that correspondent a payment instruction to debit its nostro account and transfer the funds to the Canadian bank's designated US-dollar account, often through US-dollar clearing and settlement arrangements such as Fedwire or CHIPS. The Canadian counterparty may be located in Canada, but its US-dollar account is commonly maintained with a US correspondent bank, enabling the payment to settle within the US-dollar banking system. This is the standard correspondent-banking model for cross-border payments in a currency for which the paying bank does not hold a direct account at the issuing currency's central-bank payment system. The Federal Reserve explains that Fedwire Funds is a real-time gross settlement service used by participating institutions for payments in US dollars; see Federal Reserve Financial Services—Fedwire Funds Service. For the role of correspondent banking in cross-border payments, see the BIS report on correspondent banking.

## QUESTION NO: 11

Which of the following is the best description of a broken trade"?

**A.** When a trade has been agreed to with dates (maturities) different from the standard dates

**B.** When one of the parties to the deal unilaterally decides to withdraw from the on-going transaction

**C.** When, due to a system break, one or both parties to the deal chooses to withdraw from the ongoing transaction

**D.** When, due to a system break, one or both parties to the deal are unclear as to whether the deal has been done

## ANSWER: D

**Explanation:**

When, due to a system break, one or both parties to the deal are unclear as to whether the deal has been done is the best description of a broken trade. In ACI dealing practice, the key feature is uncertainty over whether a valid agreement was concluded, typically because a technical or communications failure interrupts the normal trade-execution process. The issue

is therefore not simply that a party no longer wishes to transact; it is that the participants cannot reliably establish whether the transaction was actually completed and must promptly investigate the event, reconstruct the communication where possible, and resolve the trade status using their documented procedures. This distinction is important operationally because an unrecognised executed trade can create market, liquidity, settlement, and counterparty exposures. Firms should maintain resilient recording and confirmation controls, escalation routes, and clear procedures for resolving disputed or uncertain transactions. These practices support the professional standards for dealing-room conduct, operational control, and orderly market behaviour described in the ACI Model Code. ACI's professional education framework also treats sound post-trade and operational-risk management as essential market-practice knowledge; see the ACI education resources.

## QUESTION NO: 12

FX Swaps can be used to:

**A.** Swap a fixed leg into a variable leg

**B.** Buy or sell the currency of your choice

**C.** Arbitrage between foreign exchange and interest rates

**D.** Arbitrage between deposits and forward points

## ANSWER: D

**Explanation:**

Arbitrage between deposits and forward points is correct because an FX swap combines a foreign-exchange transaction for one value date with an offsetting transaction for a later value date. The difference between the two exchange rates is represented by the forward points. In efficient markets, those forward points are closely linked to the interest-rate differential between the two currencies over the swap period, as expressed by covered interest parity. A dealer or treasury can therefore compare the implied cost of obtaining one currency through an FX swap with the cost of borrowing or placing funds directly in the relevant currencies. If the quoted forward points are inconsistent with the relative deposit rates after allowing for market costs and credit considerations, offsetting deposit and FX-swap transactions can lock in the discrepancy. This is the economic relationship described by arbitrage between deposits and forward points. FX swaps are consequently central instruments for short-term foreign-currency funding, liquidity management, and rolling FX positions while managing the interest-rate differential embedded in forward pricing. The Bank for International Settlements describes FX swaps as simultaneous purchases and sales of one currency against another for different value dates: BIS FX statistics overview. The forward-rate and interest-rate relationship is outlined in the CFA Institute's discussion of covered interest-rate parity: CFA Institute currency exchange rates.

## QUESTION NO: 13

What are the consequences for credit risk when a collateral agreement is added to a netting agreement?

**A.** A collateral agreement eliminates the future replacement risk

**B.** A collateral agreement can reduce market risk

**C.** A collateral agreement can reduce operational risk

**D.** A collateral agreement can reduce the replacement risk

## ANSWER: D

**Explanation:**

A collateral agreement can reduce the replacement risk because collateral mitigates the credit exposure that remains after transactions have been netted under an enforceable netting agreement. Replacement risk, commonly described as current exposure, is the potential cost of replacing transactions with a defaulting counterparty when their net mark-to-market value is positive to the non-defaulting party. A collateral arrangement, typically documented through a Credit Support Annex or similar agreement, requires the posting or transfer of eligible collateral as exposure changes. This collateral can be applied

following a counterparty default, reducing the unsecured amount that could be lost and therefore reducing the cost of replacing the terminated portfolio.

The risk reduction depends on the agreement's practical and legal terms, including thresholds, minimum transfer amounts, valuation frequency, margin-call timing, eligible-collateral haircuts, dispute procedures, collateral segregation, and the enforceability of both close-out netting and collateral rights in the relevant jurisdictions. Accordingly, collateral is a credit-risk mitigant that reduces exposure rather than providing an absolute guarantee. The Basel framework recognizes eligible financial collateral as a credit-risk mitigation technique and explains its effect on exposure calculations. See the Basel Committee's Basel III leverage-ratio framework and disclosure requirements and ISDA's overview of the Credit Support Annex.

## QUESTION NO: 14

The capital market is the general term for a financial market in which:

**A.** Short-term debt, equities and securities, as well as short-term financial instruments are traded; maturities are generally less than one year

**B.** Medium to long-term debt and financial instruments, as well as medium and long-term securities are traded until they reach maturity

**C.** Only long-term corporate bonds, with maturities of five years or more, are bought and sold

**D.** Only short-term financial instruments and short-term securities are traded

## ANSWER: B

**Explanation:**

Medium to long-term debt and financial instruments, as well as medium and long-term securities are traded until they reach maturity is correct because the capital market provides the venue through which borrowers and investors raise, invest, and transfer funds over longer time horizons. Its instruments include longer-dated debt securities, such as bonds, and equity securities, such as shares. These instruments support financing for investment, expansion, and other durable funding needs rather than day-to-day liquidity management. The term encompasses both primary-market issuance, where issuers obtain capital, and secondary-market dealing, where investors can buy or sell securities before their contractual redemption or maturity date. In standard financial-market terminology, the distinction is principally based on maturity: money markets cover short-term instruments, conventionally those maturing within one year, while capital markets cover longer-term debt and equity financing. Equity has no stated maturity, but it is nevertheless a core capital-market instrument because it represents a long-term ownership claim. This classification is consistent with the Bank for International Settlements' discussion of money-market and capital-market instruments and the International Monetary Fund's financial-market terminology. See BIS statistics and financial market information and IMF: Financial Markets.

## QUESTION NO: 15

Which settlement system offers the lowest risks?

**A.** EBA

**B.** CLS

**C.** TARGET2

**D.** CHAPS

## ANSWER: B

**Explanation:**

CLS offers the lowest settlement risk because it is specifically designed to reduce foreign-exchange settlement, or principal, risk through payment-versus-payment settlement. For an eligible FX transaction, CLS settles both legs of the trade together:

a participant pays out one currency only when the corresponding currency payment is settled. This removes the exposure that would arise if one party irrevocably delivered the currency it sold but did not receive the currency it bought because the counterparty failed or a disruption occurred during the settlement window.

CLS also uses multilateral netting, which substantially reduces the liquidity required to settle large volumes of FX trades while preserving the payment-versus-payment protection. Its settlement model is supported by central-bank accounts and a tightly controlled settlement cycle, helping participants manage operational, liquidity, and counterparty-related settlement exposures. The Bank for International Settlements identifies payment-versus-payment arrangements as a key mechanism for eliminating FX settlement risk, while CLS describes its service as reducing this risk for participating currencies and institutions. See BIS: Settlement risk in foreign exchange transactions and CLS Settlement.

## QUESTION NO: 16

The control failings involving Barings and Daiwa highlight the critical importance of what operational risk management practice?

**A.** The taping of conversations between counterparties

**B.** Model signing-off and implementation controls

**C.** The separation between front/back office duties

**D.** The existence of contingency plans

## ANSWER: C

**Explanation:**

The separation between front/back office duties is correct because both Barings and Daiwa demonstrate the severe operational-risk consequences of inadequate segregation of duties. At Barings, Nick Leeson held responsibilities spanning trading activity and back-office settlement/reconciliation functions. This concentration of incompatible responsibilities enabled losses to be concealed rather than independently identified and escalated. Daiwa similarly exposed the danger of weak independent oversight: unauthorized trading losses were hidden over an extended period because the control environment did not ensure effective independent confirmation, reconciliation, and challenge of trading records. Segregating front-office execution and risk-taking from back-office confirmation, settlement, accounting, and reconciliation creates a fundamental control boundary. It ensures that records generated by traders are independently validated against counterparties, positions, cash movements, and accounting data, while discrepancies can be investigated promptly. This is a core preventative and detective operational-risk control, particularly where employees can initiate transactions or influence their recording. The Basel Committee's operational-risk principles emphasize clear accountability, effective internal controls, and independent control functions, all of which support robust duty segregation. Further context on the Barings failure is available from the Bank of England; see also the Basel Committee principles for operational risk.

## QUESTION NO: 18

Which of the following is an example of market risk?

**A.** Counterparty risk

**B.** Country risk

**C.** Settlement risk

**D.** Stock price risk

## ANSWER: D

**Explanation:**

Stock price risk is an example of market risk because it is the potential for a financial loss resulting from adverse movements in the market value of equity instruments. A fall in the price of a share, equity index, or equity-related derivative can reduce

the value of a trading position or investment portfolio. Market risk concerns changes in market-wide pricing factors, including equity prices, interest rates, foreign-exchange rates, and commodity prices. Financial institutions measure and manage this exposure through methods such as position limits, sensitivity analysis, stress testing, and value-at-risk measures. The Basel framework identifies equity risk as a market-risk component and describes market risk as the risk of losses in on- and off-balance-sheet positions arising from movements in market prices. This makes stock price risk a direct and standard illustration of market risk. See the Basel Committee's minimum capital requirements for market risk and the International Monetary Fund discussion of financial-sector risks.

## QUESTION NO: 19

Claims should be communicated in writing via e-mail or preferablely by authenticated SWIFT. What information should be provided in the claim?

**A.** The details of the transaction involved, the number of days the payment was delayed and the resulting cost

**B.** The details of the transaction involved, the number of days the payment was delayed and the cost, together with Central Bank rate to be applied

**C.** The details of the transaction involved, the number of days the payment was delayed and the cost, together with reference rates to be applied

**D.** The details of the transaction involved, the number of days the payment was delayed and the cost, together with the calculation methodology being claimed

## ANSWER: D

**Explanation:**

The details of the transaction involved, the number of days the payment was delayed and the cost, together with the calculation methodology being claimed is correct because a payment-delay claim must give the receiving party enough information to identify, verify, and independently reproduce the requested compensation. Transaction details establish precisely which failed or delayed settlement is being addressed. Stating the number of delayed days defines the relevant accrual period, while the claimed cost communicates the monetary amount sought. Crucially, including the calculation methodology makes the claim transparent: it shows how the amount was derived, including the relevant basis and application of the applicable rate or convention. This enables prompt validation and settlement of a legitimate claim, reduces avoidable disputes, and provides an auditable written record when the claim is sent through authenticated channels such as SWIFT. These elements support the ACI emphasis on clear, professional, and properly documented market conduct in operational matters. See the ACI Model Code and ACI Financial Markets Association's official website for its standards and guidance for wholesale financial-market practice.

## QUESTION NO: 20

How are accounting entries usually generated?

**A.** They are generated based on a code profile held for each product type on a time event basis. B. They are generated based on a code profile held for each front office staff member.

**B.** They are generated based on the nature of instruments (debits = first priority / credits = second priority).

**C.** They are generated in the morning at start of business when there is no direct link to other systems.

## ANSWER: A

**Explanation:**

They are generated based on a code profile held for each product type on a time event basis. B. They are generated based on a code profile held for each front office staff member. The intended principle is that operations systems create accounting entries from predefined accounting-code or posting profiles associated with the relevant product and the event that has occurred. A time or lifecycle event—such as trade capture, settlement, accrual, maturity, or payment—causes the system to identify the applicable product configuration and generate the debit and credit postings to the appropriate general-ledger

accounts. This approach provides consistent, controlled, and automated processing across transactions in the same product class, while allowing an institution to configure distinct accounting treatment where products or events require it. It also supports reconciliation and auditability because the accounting output can be traced back to a defined event and its configured posting rules, rather than relying on manual selection by an individual user. This reflects the event-driven subledger accounting model described in Oracle Subledger Accounting documentation and is consistent with the operational processing scope covered by the ACI FMA Operations Certificate.

## QUESTION NO: 21

The exercise price (strike price) of an option contract is:

**A.** The price of the underlying instrument at the time of the transaction

**B.** The price at which the transaction on the underlying instrument will be carried out if the option is exercised

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

**D.** The price at which the two counterparties can closeout their position

## ANSWER: B

**Explanation:**

The price at which the transaction on the underlying instrument will be carried out if the option is exercised is correct because the exercise price, also called the strike price, is the pre-agreed price specified in an option contract for buying or selling its underlying instrument. A call option gives its holder the right to buy the underlying instrument at that stated price, while a put option gives its holder the right to sell it at that stated price, subject to the contract terms and exercise style. The strike price is fixed when the option is created and is a core term used to determine whether exercising the option has economic value at a given market price. It is distinct from the option premium, which is the amount paid by the buyer to obtain the option, and from the prevailing market price of the underlying instrument. The UK Financial Conduct Authority defines an option as a right to buy or sell an asset at a specified price on or before a particular date; that specified price is the exercise or strike price. See the FCA overview of derivatives and the U.S. SEC Investor Bulletin on options.

## QUESTION NO: 22

What is the standard for settlement of cross-border DVP systems?

**A.** T+3, meaning that settlement is due three days after the deal date

**B.** T+4, meaning that settlement is due four days after the deal date

**C.** T+1, meaning that settlement is due one day after the deal date

**D.** T+2, meaning that settlement is due two days after the deal date

## ANSWER: A

**Explanation:**

T+3, meaning that settlement is due three days after the deal date, is the standard intended by this question for cross-border delivery-versus-payment settlement. In the established international securities-settlement framework, a rolling settlement cycle no later than three business days after the trade date was the benchmark for reducing the period during which counterparties are exposed to replacement-cost and principal risk. A cross-border DVP arrangement links delivery of securities to the corresponding payment, so that the transfer of one occurs only if the other occurs; completing this process on the stated settlement date is central to controlling settlement risk. The Bank for International Settlements' delivery-versus-payment report describes the DVP principle and its role in eliminating principal risk in securities settlement. The CPSS-IOSCO recommendations also set out the historic expectation that final settlement should occur no later than T+3. Therefore, for this ACI exam question's standard terminology, T+3 is the applicable answer. In real markets, settlement cycles can now be shorter and are determined by the relevant market, currency, depository, and regulatory rules; that

evolution does not alter the legacy standard being tested here. See the BIS Delivery versus payment in securities settlement report and the CPSS-IOSCO Recommendations for securities settlement systems.

## QUESTION NO: 23

A plain vanilla interest rate swap (IRS) is:

**A.** An agreement to exchange one stream of interest payments for another (fixed against floating)

**B.** A fixed rate leg in one currency and a fixed rate leg in another currency

**C.** Two floating rate legs on different indexes

**D.** An agreement to borrow and lend one currency for another at two different value dates

## ANSWER: A

**Explanation:**

A plain vanilla interest rate swap is an over-the-counter derivative in which two counterparties agree to exchange interest-payment cash flows calculated on the same notional principal amount. In the standard form, one party pays a fixed interest rate and receives a floating rate, while the other receives the fixed rate and pays the floating rate. The notional is normally only a calculation amount and is not exchanged. Payments are made on agreed dates and are commonly netted when they are in the same currency. This structure allows a borrower or investor to alter exposure between fixed and floating interest rates without changing the underlying borrowing or investment. For example, an entity with floating-rate debt can use the swap to create an effective fixed-rate funding exposure by paying fixed and receiving a floating benchmark that offsets its debt cost. The International Swaps and Derivatives Association describes an interest rate swap as a transaction involving exchanges of interest-payment obligations, and CME Group's educational material identifies the fixed-for-floating structure as the conventional interest rate swap. See the ISDA Interest Rate Derivatives Definitions and CME Group's overview of interest rate swaps.

## QUESTION NO: 24

A "basis point", expressed as a percentage, is:

**A.** 1%

**B.** 0.01%

**C.** 0.1%

**D.** 0.0001%

## ANSWER: B

**Explanation:**

**0.01%** is correct because one basis point (bp, or bps in plural) is defined as one one-hundredth of one percentage point. Numerically, one percentage point equals 1%, so dividing it by 100 gives 0.01%. In decimal form, this is 0.0001. Basis points are widely used in financial markets, banking, lending, and investment reporting to communicate small changes in interest rates, yields, spreads, fees, and returns without ambiguity. For example, an interest-rate increase from 4.00% to 4.25% is an increase of 25 basis points, not 0.25 basis points. Similarly, a movement from 5.10% to 5.11% equals one basis point. The term is particularly useful because it distinguishes an absolute change in a quoted percentage rate from a relative percentage change. The U.S. Securities and Exchange Commission's investor guidance uses basis points when discussing fees and yield-related disclosures, while financial reference material consistently defines a basis point as 0.01 percentage point. See the SEC's investor guidance on fund fees and Investopedia's basis-point definition.

## QUESTION NO: 25

What is the replacement risk of an OTC derivative trade?

**A.** The risk that there is no liquid market at the exchange to close a trade

**B.** The risk that the present value of a trade will be negative one day prior to value date

**C.** The risk that an OTC-derivative product cannot be closed before maturity

**D.** The loss incurred if the counterparty defaults

**ANSWER: D**

**Explanation:**

The loss incurred if the counterparty defaults is the correct description of replacement risk. In an OTC derivative, the contract may have a positive current market value to one party. If the counterparty then defaults, the non-defaulting party can lose that favourable value and must enter into a replacement transaction in the prevailing market. If market prices have moved adversely since the original trade was agreed, replacing the economic position can cost more than the value implied by the original contractual terms. This exposure is commonly called current exposure or replacement-cost exposure: it is the amount that could be lost if the counterparty defaulted now, before any recovery, collateral, or legally enforceable netting is taken into account. The exposure is inherently market-sensitive because the derivative's mark-to-market value changes throughout its life; it is not limited to the contractual payment due on a particular date. The Basel Committee describes counterparty credit risk as the risk that a counterparty defaults before final settlement of the transaction's cash flows, and its framework addresses the associated exposure measurement for derivatives. See the Basel Committee's counterparty credit risk framework and the ISDA close-out netting explainer.

**QUESTION NO: 27**

What ought to be done in the event a trade erroneously occurs at an off-market rate?

**A.** By agreement between the two counterparties, the trade must be cancelled as soon as practically possible since a rate amendment is prohibited.

**B.** By agreement between the two counterparts, the trade should, as soon as practically possible, either be cancelled or have its rate amended to an appropriate market rate.

**C.** The off-market rate should be adjusted as soon as possible to the appropriate current market rate and a new authenticated SWIFT confirmation sent immediately to the counterparty.

**D.** Nothing need be done, since once a trade is agreed to by the front office it is a binding agreement for both counterparties.

**ANSWER: B**

**Explanation:**

By agreement between the two counterparts, the trade should, as soon as practically possible, either be cancelled or have its rate amended to an appropriate market rate. This is correct because an off-market execution caused by error must be addressed promptly and mutually by the parties to preserve an accurate transaction record and ensure the resulting position reflects a defensible market level. The appropriate remedy depends on the circumstances and on the counterparties' agreement: cancelling the transaction removes the erroneous execution, while amending the rate corrects it where both parties agree that the trade should remain in force at the proper market rate. The decision and resulting action should be recorded through the firm's established error-trade controls, with any necessary confirmation and operational records updated consistently. This approach aligns with the Global FX Code's expectation that market participants maintain effective processes for identifying, escalating, and resolving trade errors fairly and transparently. It also supports ACI's emphasis on professional conduct, prompt communication, and proper control of dealing activity. See the Global FX Code and the ACI Model Code.

**QUESTION NO: 29**

The coupon of this type of bond can be based on a country's CPI (Consumer Price Index);

**A.** "Step up" bonds

**B.** Index linked bonds

**C.** Premium bonds

**D.** Par bonds

**ANSWER: B**

**Explanation:**

Index linked bonds are correct because their payments and/or principal are explicitly tied to an inflation index, commonly a country's Consumer Price Index (CPI). This indexation is designed to preserve the investor's purchasing power: as the published CPI rises, the bond's inflation-adjusted principal and the coupon amount payable can rise accordingly, subject to the bond's specific terms. In many common structures, the coupon rate itself is fixed, but it is applied to a principal amount that has been uplifted in line with CPI; the practical result is that coupon cash flows vary with inflation. Other structures may define coupon payments more directly by reference to the relevant index. The applicable index, calculation lag, indexation formula, payment frequency, and treatment of deflation are set out in the bond's documentation. For example, UK index-linked gilts use the Retail Prices Index (RPI), while US Treasury Inflation-Protected Securities (TIPS) use the CPI-U measure. Therefore, a bond whose coupon can be based on a national CPI is an index linked bond. See the UK Debt Management Office guidance on index-linked gilts and the US TreasuryDirect overview of TIPS.

## QUESTION NO: 30

What does "SWIFT" stand for?

**A.** Society for World-wide Interbank Financial Transactions

**B.** Society for World-wide Interbank Financial Telecommunications

**C.** Society for World-wide International Financial Transactions

**D.** Society for World-wide International Financial Trading

**ANSWER: B**

**Explanation:**

Society for Worldwide Interbank Financial Telecommunication is the official expansion of SWIFT. SWIFT is a member-owned cooperative that provides secure financial messaging services and standards used by banks and other financial institutions globally. Its messaging network enables participating institutions to exchange standardized payment instructions, securities messages, trade-finance messages, and other financial communications in a structured, authenticated format. Importantly, SWIFT is a financial messaging provider rather than a system that itself holds customer funds or settles payments; the underlying payment is completed through the relevant correspondent-banking, clearing, or settlement arrangements. The organization's own corporate information identifies its name as "S.W.I.F.T. SC," meaning the Society for Worldwide Interbank Financial Telecommunication. In common usage, "SWIFT" is also used to refer to its standardized message formats and Bank Identifier Codes, often called SWIFT codes, which help identify financial institutions in cross-border financial communications. See SWIFT's official overview and its company history for the organization's formal name and role in global financial messaging.

## QUESTION NO: 31

What is the "spread" in an interest rate swap (IRS)?

**A.** The interest rate differential between the fixed and floating leg of the swap

**B.** The brokerage fee for an interest rate swap transaction

**C.** The payment made when a swap is terminated

**D.** The difference between the swap rate and the benchmark government yield

**ANSWER: D**

**Explanation:**

The difference between the swap rate and the benchmark government yield is correct because, in standard market terminology, the “swap spread” measures the gap between the fixed rate on an interest rate swap and the yield on a comparable-maturity government bond. For example, a five-year swap spread is generally calculated as the five-year fixed swap rate minus the yield on a five-year benchmark government security. This comparison expresses the relative pricing of the swap market against the government yield curve and is typically quoted in basis points. The spread can reflect factors such as bank credit and funding conditions, market liquidity, hedging demand, collateral conventions, and supply-and-demand dynamics in government bond and derivatives markets. It is therefore a market measure rather than a contractual cash flow inherent in the swap’s fixed and floating payment exchange. The International Swaps and Derivatives Association describes interest rate swaps as transactions in which counterparties exchange streams of interest payments, including fixed-for-floating structures; the swap spread is the market convention used to compare the resulting fixed swap rate with the relevant sovereign benchmark yield. See the ISDA Interest Rate Derivatives Definitions and the Federal Reserve Bank of New York discussion of swap spreads.

**QUESTION NO: 32**

What is the most frequently used settlement process for securities?

**A.** Free of settlement payment

**B.** Cash settlement

**C.** Same day value settlement

**D.** Delivery-versus-payment

**ANSWER: D**

**Explanation:**

Delivery-versus-payment is the standard and most widely used securities-settlement process because it links the transfer of securities directly to the corresponding transfer of funds. Under this arrangement, the buyer receives the securities only when payment is made, and the seller receives payment only when the securities are delivered. This reciprocal, coordinated exchange is central to safe and efficient post-trade processing because it prevents an unsettled party from being exposed to the principal value of a transaction after it has fulfilled its own obligation. In operational terms, the securities depository and payment arrangements use matching instructions and settlement controls to ensure that delivery and payment occur together according to the applicable settlement model. The Bank for International Settlements defines delivery versus payment as a mechanism that links a securities transfer and a funds transfer so that delivery occurs if, and only if, payment occurs. This principle is a foundational control for securities settlement infrastructures and market participants. See the BIS delivery-versus-payment report and the CPMI-IOSCO Principles for Financial Market Infrastructures.

**QUESTION NO: 33**

Which of the following statements is correct?

**A.** The settlement of a FRA is paid at maturity date.

**B.** The settlement amount is paid at the trade date of a FRA.

**C.** The cash settlement amount on a FRA is usually a discounted amount.

**D.** The settlement amount on a FRA is not based on the LIBOR for the relevant period.

**ANSWER: C**

**Explanation:**

The cash settlement amount on a FRA is usually a discounted amount. A forward rate agreement fixes an interest rate today for a specified future borrowing or lending period. At the start of that underlying period—the FRA settlement date—the parties compare the agreed contract rate with the applicable reference rate for the relevant tenor and calculate the interest difference that would apply over the notional principal for that future period. Since that interest differential relates economically to an amount accruing through to the end of the underlying period, but is normally settled at its beginning, it is reduced to its present value using the applicable settlement/reference rate. The commonly used calculation is therefore based on the interest difference multiplied by the notional and day-count fraction, divided by one plus the reference rate multiplied by that same fraction. This discounting prevents a party receiving an amount early that represents interest otherwise payable only at the end of the reference period. The UK Financial Conduct Authority describes FRAs as contracts that allow parties to fix an interest rate for a future period, while the settlement convention reflects the time value of the future interest differential. See the ISDA Definitions and the FCA benchmarks information.

## QUESTION NO: 34

Which of the following types of institutions do not generally make up the “buy side”?

**A.** Corporate and governments

**B.** Asset managers and insurance firms

**C.** Retail banks and commercial banks

**D.** Mutual and hedge funds

## ANSWER: C

**Explanation:**

Retail banks and commercial banks is correct. In the standard market-participant distinction used in securities markets, the buy side primarily consists of institutions that invest money on behalf of clients, beneficiaries, or investment vehicles. Their central activity is allocating capital into instruments such as equities, bonds, funds, and derivatives, usually with the objective of meeting investment mandates or generating returns. Retail and commercial banks, by contrast, principally provide deposit-taking, lending, payments, cash-management, and banking services to households and businesses. Although a commercial bank may hold securities in its own treasury portfolio and can participate in capital-markets activity, that does not generally make retail or commercial banking a buy-side institutional category. The distinction is based on the institution’s primary market role rather than every transaction it may undertake. In trading-market terminology, banks commonly provide execution, liquidity, financing, custody, research, or distribution services, functions associated with the intermediary side of the market. This classification supports clear identification of the client/investor role versus the service-provider and market-intermediation role. See the overview of buy-side and sell-side participants from Corporate Finance Institute and the market-participant discussion from the CFA Institute.

## QUESTION NO: 35

A middle or back office clerk receives an FX ticket in which the counterparty is not clearly identified. What should he/she do?

**A.** Keep the ticket in “stand-by mode” until a matching confirmation is received

**B.** Immediately refer the ticket to the compliance officer

**C.** Refer the ticket to the FX dealer for further details

**D.** Refer the ticket to the nostro account manager for further instructions

## ANSWER: C

**Explanation:**

Refer the ticket to the FX dealer for further details. The dealer is the front-office employee who executed, or is responsible for, the FX transaction and is therefore the appropriate person to clarify the intended counterparty and provide the missing trade details. Prompt clarification is essential because the legal entity, branch, and settlement instructions associated with the counterparty determine how the trade is recorded, confirmed, risk-checked, and settled. A ticket with an unclear counterparty cannot be processed reliably until the execution detail is resolved.

ACI's professional guidance emphasizes clear dealing records, reliable confirmation and settlement processes, and an appropriate separation between dealing and operational processing. Escalating the query to the dealer preserves that workflow: operations identifies an incomplete instruction, obtains clarification from the transaction originator, and then completes processing using an accurate and auditable trade record. The clerk should ensure the clarification is appropriately documented in accordance with the institution's procedures before the transaction proceeds through confirmation and settlement. This supports sound operational control and reduces the risk of a trade being attributed, confirmed, or settled against the wrong entity. See the ACI Model Code and ACI's professional standards resources.

## QUESTION NO: 36

What information is essential for an interbank FX confirmation?

**A.** Specification of the applicable law

**B.** The value date

**C.** The brokerage cost

**D.** The name of the person(s) originating the deal

## ANSWER: B

**Explanation:**

The value date is essential because it identifies the date on which the two currencies must be delivered and settled. In an interbank FX transaction, the agreed exchange rate and currency amounts alone do not fully define the settlement obligation: the confirmation must also establish when payment is due. The value date allows both counterparties to align their nostro-account funding, settlement instructions, liquidity management, and operational processing for the trade. It is therefore a core economic term that must be captured accurately and matched promptly in the confirmation process.

This reflects the FX Global Code's confirmation and settlement principles. The Code states that Market Participants should use timely, accurate, and complete confirmation processes to mitigate operational and settlement risk. A complete confirmation records the agreed transaction terms, including settlement-related details such as the value date. Confirming this date is particularly important in FX because settlement generally requires each party to deliver a different currency through the relevant payment systems on the agreed day. See the FX Global Code and the ACI Financial Markets Association for industry standards and professional-market practice resources.

## QUESTION NO: 37

The organization "SWIFT" belongs to:

**A.** The members of the system (member-owned cooperative)

**B.** The European Banking Federation based in Brussels

**C.** The European Central Bank

**D.** The IMF

## ANSWER: A

**Explanation:**

The members of the system (member-owned cooperative) is correct because SWIFT, the Society for Worldwide Interbank Financial Telecommunication, is organized as a cooperative society under Belgian law. Its shareholder members are

financial institutions that use its services and meet the eligibility requirements for shareholding. This ownership model means that SWIFT is owned by its community of member institutions rather than by a central bank, an international organization, or a banking trade association. Members participate in SWIFT's governance through shareholder rights, including the election of its Board of Directors, while the cooperative operates the secure messaging and connectivity services used across the global financial sector.

SWIFT's legal structure and governance are important in operational contexts because they distinguish its role as an industry-owned financial-messaging provider from the roles of regulators, supervisors, central banks, and settlement institutions. Although SWIFT is overseen by central banks due to its systemic importance, oversight does not transfer ownership. The cooperative structure is explicitly described in SWIFT's corporate information and governance materials. See SWIFT: Discover SWIFT and SWIFT: Corporate Governance.

## QUESTION NO: 38

When would you use a SWIFT message type 103?

**A.** For a foreign exchange confirmation

**B.** For a multiple general financial institution transfer

**C.** For a general financial institution transfer

**D.** For a customer transfer

## ANSWER: D

**Explanation:**

For a customer transfer is correct because an MT 103 is the SWIFT FIN message used to instruct a single customer credit transfer. It carries payment information from the sending institution to the receiving institution for credit to a beneficiary customer, including such core details as the ordering customer, beneficiary customer, amount, currency, value date, and remittance information. In operational terms, it is the familiar payment instruction used when a bank sends funds on behalf of its customer to another bank for the benefit of a customer recipient. The message also supports the transparency and compliance data expected for cross-border customer payments, including party and bank-identification fields. The MT number is significant: the 1xx series concerns customer payments and cheques, and the specific MT 103 format identifies a single customer credit transfer rather than an interbank treasury, foreign-exchange confirmation, or financial-institution transfer message. SWIFT's MT standards remain relevant in FIN processing, while the industry's ISO 20022 migration is progressively introducing corresponding XML-based payment messages and richer structured data. See SWIFT's overview of MT standards and its information on ISO 20022.

## QUESTION NO: 39

Forward points represent:

**A.** The value of a currency against its base

**B.** Largely the interest rate differential between two currencies

**C.** The time/value ratio of one currency versus another

**D.** The future value of a currency

## ANSWER: B

**Explanation:**

Largely the interest rate differential between two currencies is correct. In foreign-exchange markets, forward points are the adjustment applied to the spot exchange rate to derive the forward exchange rate for a specified maturity. They arise principally from the difference between the relevant interest rates of the two currencies over that term, consistent with covered interest parity. Operationally, the forward rate is commonly expressed as the spot rate plus or minus forward points,

depending on market quotation convention and whether the base currency trades at a forward premium or discount. The points are therefore not an independent forecast of where the exchange rate will trade at maturity; rather, they are the market pricing adjustment required to account for the relative cost of holding, borrowing, or investing each currency until the forward value date. Their size changes with the maturity of the contract, prevailing money-market rates, and applicable market conventions. This relationship is fundamental to pricing FX swaps and outright forward transactions. The Bank for International Settlements describes FX swaps and forwards as transactions involving exchanges at spot and future dates, while the pricing relationship is explained through interest-rate parity in the BIS foreign-exchange statistics information and the IMF overview of interest rates and exchange rates.

## QUESTION NO: 40

When is the general cut-off time for interbank payments using TARGET2?

**A.** 17:00 (5.00 p.m.) Central European Time (CET)

**B.** 18:00 (6.00 p.m.) Central European Time (CET)

**C.** 18:30 (6.30 p.m.) Central European Time (CET)

**D.** 18:30 (6.30 p.m.) CET, but on the last minimum reserve fulfillment day (23rd of a month) 19:30 (7.30 p.m.) CET

## ANSWER: B

**Explanation:**

The general cut-off time for interbank payments in TARGET2 is 18:00 Central European Time. TARGET2 distinguishes between customer-payment processing and interbank-payment processing, with interbank payments remaining eligible for settlement later in the business day. This later deadline supports settlement of time-critical liquidity transfers and obligations between participating banks after the customer-payment cut-off has passed. In practice, participants must ensure that the payment instruction has been submitted and can be settled before the relevant cut-off; a payment's successful settlement also depends on sufficient available liquidity and compliance with the system's processing rules. The stated time is the standard operational deadline in the TARGET2 schedule, rather than a deadline applicable only on a reserve-maintenance date. The Eurosystem's TARGET2 Guideline specifies the operational timetable and identifies 18:00 CET as the cut-off for interbank payments. See the official TARGET2 Guideline and the ECB's TARGET2 information page.

## QUESTION NO: 41

Experience has shown that recourse to taped telephone conversations proves invaluable to the speedy resolution of disputes. Therefore, the Model Code recommends:

**A.** That all telephone conversations (internal and external) be taped without informing counterparties

**B.** That only conversations undertaken by dealers and brokers should be recorded

**C.** That all conversations undertaken by dealers and brokers should be recorded, together with back office telephone lines used by those responsible for confirming deals or passing payments to other institutions

**D.** That only telephone conversations between dealers and brokers be recorded

## ANSWER: C

**Explanation:**

That all conversations undertaken by dealers and brokers should be recorded, together with back office telephone lines used by those responsible for confirming deals or passing payments to other institutions is correct. The ACI Model Code's recommendation addresses the complete telephone-based trade lifecycle rather than only the point at which a dealer and broker agree a transaction. Recordings of front-office conversations provide a contemporaneous record of market discussions, quotations, orders, and trade execution. Recording the relevant back-office lines extends that evidential record to critical post-trade activity, including deal confirmation and payment instructions communicated with other institutions. This broad coverage is valuable because many disputes can concern not only the original dealing conversation but also the terms

confirmed, settlement details, or instructions subsequently passed for processing. A reliable recording framework supports prompt fact-finding, operational control, and resolution of discrepancies using an objective record of what was said and when. The recommendation should be implemented within the institution's applicable legal, privacy, data-retention, and notification requirements. The ACI Model Code is an industry conduct reference for financial-market participants; further ACI resources are available through ACI Financial Markets Association. The related international expectations for sound conduct, documentation, and confirmation practices are set out in the FX Global Code.

## QUESTION NO: 42

What is the main role of back office staff?

**A.** To confirm the accuracy of counterparties' mailing addresses

**B.** To inform the central bank when a country limit is higher than a fixed level

**C.** To ensure that trades are confirmed and settled correctly in accord with best market practice recommendations

**D.** To be in constant contact with the counterparties' front office staff

## ANSWER: C

**Explanation:**

To ensure that trades are confirmed and settled correctly in accord with best market practice recommendations is correct because the back office provides the essential post-trade control and processing function. Once a deal has been executed, operations personnel make sure the transaction details are complete and accurately recorded, exchange confirmations with the counterparty, identify and resolve discrepancies, prepare payment or securities-settlement instructions, and monitor completion of settlement. These activities reduce operational, settlement, documentation, and counterparty risk, while maintaining an auditable record of the transaction lifecycle.

This role is particularly important because an accurately executed trade can still create financial loss or reputational damage if its confirmation, payment, delivery, or reconciliation is mishandled. Back-office processes therefore apply established market conventions, segregation of duties, timely exception management, and robust controls to ensure that contractual obligations are fulfilled as intended. This scope aligns with the ACI Operations Certificate's focus on the processes and risks surrounding financial-market operations; see ACI FMA's ACI Operations Certificate information. It also supports the post-trade principles in the FX Global Code, which emphasizes timely confirmations, settlement procedures, and effective management of operational risk.