Certificate in

Fixed Income Investing

(Mock Test)

1) Bank A offers 8% interest on deposits. Bank B offers 8% interest with quarterly compounding. The effective interest rate in Bank B is (calculators not required, tick the nearest one).

A. 8%

B. 7.9%

C. 8.24%

D. 8.74%

2) Modified duration of a bond is

A. Less than or equal to maturity of the bond

B. Less than the bond

C. More than the bond

D. Anything i.e. less, equal to or more than the maturity of the bond

3) Yield and price of a bond move

A. In the same direction

B. Inversely

C. There is no correlation

D. There is correlation, but random

4) A typical yield curve plots

A. Yields across various maturities of a particular type of debt security

B. Yields across various ratings of a particular type of debt security

C. Yields across various types of debt securities of similar maturities

D. Yields across various types of debt securities of similar credit rating

5) The normal direction of a yield curve is?

A. Upward sloping

B. Downward sloping

C. Flat

D. No clear direction

6) Which of the following statements about Yield to Maturity (YTM) is NOT correct?

A. YTM is an annualized value

B. YTM takes into account the effect of compounding

C. It assumes that the security would be held till maturity

D. It assumes the intermittent cash flows are reinvested at the risk free rate

7) It may be easier to value bonds as compared to equities for which of the following reasons?

A. There is no maturity value for common stock

B. The future cash flows of bonds are known

C. Both the above

D. None of the above

8) Tax-free bonds are issued / can be issued by

A. The central Government

B. The state governments

C. Certain PSUs specially notified for this purpose

D. Any PSU

9) The term "security" is primarily defined under which of the following Acts?

A. Securities Contract (Regulation) Act

B. Securities and Exchange Board of India (SEBI)

C. Reserve Bank of India Act

D. Depositories Act

10) In a fixed coupon rate security, the coupon rate is usually based on?

A. Expected interest rates at the time of the maturity

B. Average of prevailing interest rate and rates expected over the life of the security

C. Interest rates prevailing at the time of the issue

D. None of the above

11) Modified duration of a bond measures:

A. Sensitivity to interest rate movements in the market

B. The return I will obtain by holding the bond till maturity

C. The period till which I should ideally hold the bond

D. None of the above

12) In a bond deal, dirty price represents:

A. The price of a bad quality bond

B. Clean price plus accrued interest on the bond

C. The price for selling a bond in duress

D. None of the above

13) If there is a default in a bond in the portfolio, what type of risk is it?

A. Interest Rate

B. Credit

C. Concentration

D. Liquidity

14) Two debt funds have given similar returns over the same period. One fund has been more volatile than the other. How would you measure the performance?

A. Returns adjusted for standard deviation

B. Returns adjusted for expected future movement in interest rates

15) In debt funds (MFs), as per SEBI sector exposure rules, there is no limit on exposure to certain category of instruments like G-Secs, Bank CDs, etc. Is it advisable to take that risk?

A. No, as there is a high degree of concentration

B. Yes, as these are sovereign / top rated instruments issued by well regulated institutions

16) Under SEBI rules, what is the maximum permissible exposure in instruments issued by one company?

A. 10%

B. 15%

C. 20%

17) The risk that cash flows from existing investments may have to be reinvested at lower interest rates is called?

A. Price risk

B. Prepayment risk

C. Yield curve risk

D. Reinvestment risk

18) Credit risk is measured in several ways. The yield differential above the return on a benchmark security measures the:

A. Default Risk

B. Credit spread risk

C. Downgrade risk

D. Recovery rate

19) Which of the following is NOT a recognized credit rating agency in India?

A. CARE Ratings

B. Brickwork Ratings

C. India Ratings

D. None of the above

20) Number of credit rating agencies in India is:

A. 5

B. 6

C. 7

D. 8

21) Which of the following is the lowest investment grade rating?

A. AAA

B. AA

C. A

D. BBB

22) When determining credit risk spread, the benchmark security is most likely:

A. AA rated corporate bond

B. AAA rated corporate bond

C. Central Government bond

D. State Government bond

23) Which of the following is the most important component of credit risk?

A. Default risk

B. Credit spread risk

C. Downgrade risk

D. None of the above

24) All instruments of a given rating, say AA, carry:

A. The same risk profile

B. Depends on the rating agency

C. Depends on the track record of the company

D. Carry different risk profiles, as the rating is only an opinion

25) The biggest buyers of Government Securities in India are:

A. Mutual Funds

B. Insurance companies

C. Corporate treasuries

D. Banks

26) Between investment in bond Mutual Funds and investment in bonds, for cash requirements:

A. Bonds cannot be sold before maturity

B. Bonds are more liquid

C. Bond Mutual Funds are more liquid

D. Both are equally liquid

27) The regulatory jurisdiction of SEBI extends over which of the following groups?

A. Corporates in the issuance of capital and transfer of securities

B. All intermediaries and persons associated with securities market

C. Both the above

D. None of the above

28) Rating agencies are regulated by:

A. RBI

B. SEBI

C. Ministry of Finance

D. CRISIL

29) In the secondary bond market, the most liquid segment is:

A. AAA rated corporate bonds

B. Treasury Bills

C. Government Securities (Government bonds)

D. State Government Securities (State bonds)

30) The biggest issuer of bonds in India is:

A. Corporate sector i.e. private and public companies

B. Banks

C. Government

D. None of the above

31) For laddering debt investments, the most appropriate investment is:

A. Bonds

B. Mutual Funds

C. Government Securities (Government bonds)

D. Money market instruments

32) Interval Funds are:

A. Open ended funds with a defined maturity date

B. Close ended funds with defined maturity date

C. Open ended funds with a defined investment horizon

D. Close ended funds with no maturity date

33) In a Fixed Maturity Plan (FMP), the maturity of the securities in the portfolio

A. Can be anything, at the discretion of the fund manager

B. Can be up to the maturity date of the FMP

C. As defined in the Scheme Information Document (SID), at the discretion of the AMC

D. Up to 3 years

34) Exit load charged in a mutual fund scheme, for exit within the exit load period, goes to:

A. The scheme i.e. existing investors in the scheme

B. The AMC

C. The Trustees

D. Is kept in suspense account

35) In a Mutual Fund Scheme with exit load, for redemption within the exit load period

A. Exit Load is applicable on the gains / returns in the holding period

B. Exit Load is applicable on your principal amount

C. Exit Load can be waived off on request

D. Exit Load is applicable on the entire NAV

36) For debt Mutual Funds' NAV computation, the designated valuation agencies for giving market-based valuation levels for securities are :

A. CRISIL and ICRA

B. FIMMDA

C. AMFI

D. RBI

37) Portfolio maturity of a debt Mutual Fund Scheme is computed as:

A. Average maturity of the top 10 bond holdings in the portfolio

B. Average maturity of all the bond holdings in the portfolio

C. Average maturity of all instruments in the portfolio

D. Weighted average maturity of all instruments in the portfolio

38) There is a given maturity date in:

A. Liquid Funds

B. Interval Funds

C. Short Duration Funds

D. Fixed Maturity Plans (FMPs)

39) Which fund category has a defined minimum portfolio maturity?

A. Liquid Funds

B. Gilt Funds

C. Long Duration Funds

D. Dynamic Bond Funds

40) Which fund category has a defined maximum portfolio maturity?

A. Long Duration Funds

B. Dynamic Bond Funds

C. Money Market Funds

D. Government Security Funds

41) The difference in expense ratio (TER) between direct plan and regular plan of MFs is:

A. The higher admin cost of regular plans
B. As decided by the Trustees of the Mutual Fund
C. The brokerage (distributor remuneration) in regular plan
D. Decided by SEBI on a case to case basis

42) If you want a better credit quality debt fund with higher credit rating of instruments in the portfolio, you will choose:

A. Short Duration Fund
B. Credit Risk Fund
C. Dynamic Bond Fund
D. Corporate Bond Fund

43) As per SEBI's fund categorization norms, implemented from mid-2018, the number of debt fund categories are:

A. Ten
B. Fifteen
C. Twenty
D. Sixteen

44) As per SEBI rules, the maximum exposure to a single group i.e. securities issued by a group of companies in a fund, is:

A. 5%
B. 10%
C. 15%
D. 20%

45) In a debt Mutual Fund Scheme, when there is a default or downgrade below investment grade:

A. The AMC can do side-pocketing, subject to approval from Trustees

B. AMC can do side-pocketing only if the SID allows it and Trustees approve

C. The AMC can amend the SID and do side-pocketing for a given default

D. Every side-pocketing requires SEBI approval

46) A Fixed Maturity Plan (FMP) has a given maturity date. It can be extended / rolled over:

A. To any extent as the AMC wants

B. It cannot be extended / rolled over

C. It can be extended, with investors' approval, and after informing SEBI

D. It can be extended only for the same period as the initial tenure

47) The mark-to-market of debt / money market instruments, as given by Crisil & Icra, is for:

A. All instruments since 1 January 2020

B. All instruments since 30 June 2020

C. Instruments of maturity more than 1 year

D. Instruments of maturity more than 6 months

48) For previous day NAV, in Liquid Funds, the cut-off time for clear funds is:

A. 1 pm

B. 2 pm

C. 1 30 pm

D. 2 30 pm

49) To avail of indexation in a bond, for long term capital gains tax, the minimum holding period is:

A. 1 year

B. 3 years

C. Indexation is not available in bonds

D. Bond coupon is tax free

50) For long term capital gains tax on bonds, the holding period required is:

A. There is no capital gains tax on bonds

B. Three years for listed and unlisted bonds

C. One year for listed bonds and three years for unlisted bonds

D. One year for listed and unlisted bonds

51) Interest earned from bonds may be taxed under which of the following heads?

A. Income from other sources

B. Income from Business and Profession

C. Both the above

D. None of the above

52) Over a horizon of 3 years, the more tax efficient option in debt funds is:

A. Dividend option

B. Growth option

C. Both are taxable at the same rate

D. SIP in dividend option

53) The coupon or interest earned from Government Securities is:

A. Free from tax

B. Taxable as interest at your slab rate

C. Taxable at half the rate for corporate bonds

D. Only TDS is applicable to G-Secs, no other tax

54) For an investor in highest tax slab, debt mutual fund is more tax efficient (over three years) than investing in bonds because:

A. Bond coupon (interest) is taxable at the highest slab rate

B. Debt MF growth option gives indexation benefit over three years

C. In debt MF, the earnings from bonds, both coupon and capital gains, is part of NAV, which gets the benefit of indexation

D. All of the above

55) A securitized debt created on a housing loan is called?:

A. Asset Backed Security (ABS)

B. Mortgage Backed Security (MBS)

C. Loan backed security

D. Debt backed security

56) Which of the following is an example of securitized debt based on a pool of potential assets?

A. Asset backed security out of Business Loans

B. Asset backed security out of Housing Loans

C. Asset backed security out of Student Education Loans

D. Asset backed security out of future Credit Card Debt

57) Which of the following is the voluntary market body for the bond, money and derivatives markets?

A. CCIL

B. SEBI

C. FIMMDA

D. RBI

58) In a secondary market bond transaction, the accrued interest that is part of the deal, is:

A. The interest that is due to the seller from last interest payment till deal date

B. The interest that is due to the buyer from last interest payment till deal date

C. The transaction charges

D. Additional interest payable by the bond issuer after the deal

59) If you have a limited amount for investment, you would prefer:

A. Mutual Funds, as the minimum investment amount is small

B. PMS, as the minimum investment amount is small

C. Buy bonds directly from the secondary market

D. None of the above

60) AMFI is a:

A. SRO (self-regulatory organization)

B. Body that passes rules for regulation of mutual funds

C. A body set up by an Act of Parliament

D. None of the above

ANSWERS:

1. C	2. A	3. B	4. A	5. A	6. D
7. C	8. C	9. A	10. C	11. A	12. B
13. B	14. A	15. B	16. A	17. D	18. B
19. D	20. C	21. D	22. C	23. A	24. D
25. D	26. C	27. C	28. B	29. C	30. C
31. A	32. C	33. B	34. A	35. D	36. A
37. C	38. D	39. C	40. C	41. C	42. D
43. D	44. D	45. B	46. C	47. B	48. C
49. C	50. C	51. C	52. B	53. B	54. D
55. B	56. D	57. C	58. A	59. A	60. A