



# CTP — Certified Treasury Professional

Complete Book | Table of Contents | 30 chapters + 6 sections

## Module 1 — Financial Markets and Role of Treasury

|      |                                            |   |
|------|--------------------------------------------|---|
| CH-1 | Financial Markets                          | 2 |
| CH-2 | Treasury                                   | 6 |
| CH-3 | Scope and Functions of Treasury Management | 9 |

## Module 2 — Money Market Operations

|      |                      |    |
|------|----------------------|----|
| CH-4 | Liquidity Management | 12 |
| CH-5 | Integrated Treasury  | 16 |
| CH-6 | Treasury Instruments | 20 |

## Module 3 — Investments

|       |                                                                |    |
|-------|----------------------------------------------------------------|----|
| CH-7  | Interest Rate Quotations and Market Terminology                | 25 |
| CH-8  | Fixed Income Securities                                        | 28 |
| CH-9  | Other Capital Market Instruments                               | 32 |
| CH-10 | Fixed Income Securities: Types, Features and Risks             | 37 |
| CH-11 | Bond Pricing, Yield Measures and Total Return                  | 40 |
| CH-12 | Fixed Income Securities – Duration and Convexity               | 44 |
| CH-13 | Bond Portfolio Management                                      | 47 |
| CH-14 | Treasury Operations – The Global Scenario                      | 51 |
| CH-15 | Accounting and Valuation                                       | 54 |
| CH-16 | Exposure Norms                                                 | 58 |
| CH-17 | Internal and External Audit                                    | 61 |
| CH-18 | Role of Information Technology in Treasury Management          | 65 |
| CH-19 | Regulations, Supervision and Compliance of Treasury Operations | 69 |

## Module 4 — Forex Dealings

|       |                                             |    |
|-------|---------------------------------------------|----|
| CH-20 | Foreign Exchange Market                     | 74 |
| CH-21 | Exchange Rate Mechanism                     | 77 |
| CH-22 | Forex Valuation                             | 81 |
| CH-23 | Risk Analysis and Control                   | 85 |
| CH-24 | Components of Multi-currency Balance Sheets | 90 |

## Module 5 — Derivatives

|       |                                                            |     |
|-------|------------------------------------------------------------|-----|
| CH-25 | Derivative Market                                          | 94  |
| CH-26 | Swaps                                                      | 98  |
| CH-27 | Options                                                    | 102 |
| CH-28 | Interest Rate Futures, Caps, Floors and Credit Derivatives | 106 |

## Module 6 — Model Code and Dealing Ethics

|       |                                                         |     |
|-------|---------------------------------------------------------|-----|
| CH-29 | Ethics, Morals and Code of Conduct for the Dealing Room | 110 |
|-------|---------------------------------------------------------|-----|

## Module 7 — Time Value of Money and Interest Rate Calculations

|       |                                                    |     |
|-------|----------------------------------------------------|-----|
| CH-30 | Time Value of Money and Interest Rate Calculations | 115 |
|-------|----------------------------------------------------|-----|

## Additional Resources

|   |                                                          |     |
|---|----------------------------------------------------------|-----|
| — | Case Studies — All Units: Units 1–7                      | 118 |
| — | Mega Tests — Mega Test 1 — 100 Questions (Full Syllabus) | 145 |
| — | Mega Tests — Mega Test 2 — 100 Questions (Full Syllabus) | 152 |
| — | Mega Tests — Mega Test 3 — 100 Questions (Full Syllabus) | 159 |
| — | Mega Tests — Mega Test 4 — 100 Questions (Full Syllabus) | 167 |
| — | Mega Tests — Mega Test 5 — 100 Questions (Full Syllabus) | 173 |

## CH-1 Financial Markets

### Topic 1 — Financial Markets: Meaning and Functions

- **Financial market** — Any place or system where financial instruments are bought and sold.
- **Instruments** — Bonds, equity shares, currencies of different countries and derivatives.
- **System, not building** — Most trading now happens on screens, by phone or on electronic platforms.
- **Basic job** — It moves money from those with surplus funds to those who need funds, and puts a price on that transfer.

#### Five functions every financial market performs

| Function               | What it means                                                                                    |
|------------------------|--------------------------------------------------------------------------------------------------|
| <b>Raising funds</b>   | A company, a bank or the Government gets the money it needs                                      |
| <b>Price discovery</b> | Many buyers and sellers together fix a fair rate or price                                        |
| <b>Liquidity</b>       | A holder can sell the paper before maturity and get cash                                         |
| <b>Risk transfer</b>   | Through derivatives, a risk passes from one who does not want it to one who carries it for a fee |
| <b>Settlement</b>      | Machinery that makes sure money and securities actually change hands                             |

#### Primary and secondary market

| Point              | Primary market                               | Secondary market                                     |
|--------------------|----------------------------------------------|------------------------------------------------------|
| When               | Security is issued for the <b>first time</b> | Same security later changes hands between investors  |
| Who gets the money | The <b>issuer</b>                            | The selling investor; the issuer gets <b>nothing</b> |
| Example            | A company's IPO                              | Buying the same share on a stock exchange next month |

#### Remember this

- Primary and secondary describe **when** a security is sold, not **what** it is.

### Topic 2 — Markets and Their Regulators

- **Simple rule** — RBI takes the **money side**: money market, government debt and foreign exchange.
- **SEBI side** — SEBI takes the **securities side**: equity, listed corporate debt, commodity derivatives and mutual funds.

| Market                  | What is traded                                              | Regulator                               |
|-------------------------|-------------------------------------------------------------|-----------------------------------------|
| Capital market          | Long-term funds — shares, debentures, bonds                 | <b>SEBI</b>                             |
| Debt / G-Sec market     | Government securities and other debt paper                  | <b>RBI</b>                              |
| Money market            | Short-term paper maturing within one year                   | <b>RBI</b>                              |
| Foreign exchange market | Currencies of different countries                           | <b>RBI</b> (under FEMA, 1999)           |
| Commodity derivatives   | Futures and options on gold, crude, farm goods              | <b>SEBI</b>                             |
| Mutual fund market      | Units of mutual fund schemes                                | <b>SEBI</b> (AMFI is only a trade body) |
| Insurance market        | Life and general insurance business                         | <b>IRDAI</b>                            |
| Pension market          | NPS and pension funds                                       | <b>PFRDA</b>                            |
| GIFT City (IFSC)        | Banking, capital market, insurance and funds inside an IFSC | <b>IFSCA</b>                            |

#### Two stale regulator lines in older notes

- **FMC is gone** — The Forward Markets Commission was merged into SEBI on **28 September 2015**; commodity derivatives are with SEBI.
- **AMFI is not a regulator** — The Association of Mutual Funds in India is an industry association; it sets practice but cannot make binding regulations.
- **One answer** — If a question asks who regulates both the debt market and the forex market, the answer is **RBI**.

#### Money market versus capital market

| Point                 | Money market                          | Capital market                              |
|-----------------------|---------------------------------------|---------------------------------------------|
| Tenor (original life) | <b>Up to one year</b>                 | <b>More than one year</b>                   |
| Purpose of funds      | Working capital, day-to-day cash gaps | Long-term projects, fixed assets, expansion |
| Typical instruments   | T-Bills, CD, CP, call money, repo     | Equity shares, debentures, dated G-Secs     |
| Regulator             | <b>RBI</b>                            | <b>SEBI</b> (RBI for G-Secs)                |
| Price risk            | Low — short life, small price swings  | High — long life, large price swings        |
| Return to holder      | Lower                                 | Higher                                      |

**Example: Apply the tenor rule:** a 364-day T-Bill and a 10-year dated security are both issued by the Government of India. The T-Bill matures within one year, so it is a **money market** instrument. The 10-year paper runs beyond one year, so it is a **capital (debt) market** instrument. Same issuer, different market — tenor decides.

#### Remember this

- The dividing line is **tenor**, not deal size and not the issuer.

### Topic 3 — The Money Market

- **Money market** — Where banks lend to and borrow from each other, trade T-Bills and short paper, and enter into repos.
- **Tenor** — Instruments normally mature within one year.
- **Treasury focus** — A bank must square its cash position every day, so the treasury spends most of its day here.

#### Inter-bank money segments

| Segment             | Tenor               | Key feature                                          |
|---------------------|---------------------|------------------------------------------------------|
| <b>Call money</b>   | One day (overnight) | Uncollateralised; repayable on call                  |
| <b>Notice money</b> | 2 days to 14 days   | Uncollateralised; repayable after short notice       |
| <b>Term money</b>   | 15 days to one year | Uncollateralised inter-bank deposit for a fixed term |

- **Collateral test** — All three segments are unsecured; if securities are given, the deal is a **repo**, not call money.

#### Money market instruments

- **Instruments** — T-Bills (91, 182 and 364 days) and CMBs (under 91 days) from the Government; CDs from banks and CP from companies, both 7 days to one year in multiples of Rs 5 lakh; repo and TREPS for secured money.
- **CP tenor** — Old notes say 15 days to one year; the minimum is now **7 days**.
- **See** — Ch 6 (p. 20) for each instrument's issuers, sizes and current rules.

#### RBI liquidity corridor (Liquidity Adjustment Facility)

- **Corridor** — MSF is the ceiling, the policy repo rate the middle and the SDF the floor; under SDF banks park surplus funds and RBI gives **no securities**.
- **SDF is the floor** — Since **April 2022**; older notes wrongly name the fixed rate reverse repo.
- **Reverse repo** — It still exists as a tool but is no longer the operating floor.

- **See** — Ch 4 (p. 12) for the corridor rates and the MSF and SDF rules.

#### Reserve ratios that shape money market demand

- **CRR and SLR** — CRR is **3%** of NDTL held as a cash balance with RBI, earning no interest; SLR is **18%** of NDTL held in cash, gold or approved securities.
- **Rate effect** — Both ratios pull money out of lending, so any change moves money market rates at once.
- **See** — Ch 4 (p. 12) for CRR, SLR and the NDTL base.

#### Remember this

- Call = overnight; notice = 2 to 14 days; term = 15 days to one year — all unsecured.

### Topic 4 — Money Market Numericals: T-Bills and Repo

- **T-Bill** — Pays no coupon; sold below face value and redeemed at full face value.
- **Return** — The gap between price and face value; face value is taken as Rs 100 for pricing.

Yield on a T-Bill divides the discount by the **price paid**; 365 is the rupee money market day count:

$$\text{Yield} = \frac{\text{Face} - \text{Price}}{\text{Price}} \times \frac{365}{\text{Days}} \times 100$$

**Example:** 91-day T-Bill bought at Rs 98.35. Discount = 100 – 98.35 = **Rs 1.65**. Period return = 1.65 / 98.35 = 0.016777 (1.6777% for 91 days). Annualised = 0.016777 × 365/91 = 0.016777 × 4.0110 = **6.73% p.a.**

The **discount rate** uses the same two numbers but divides by **face value**:

$$\text{Discount rate} = \frac{\text{Face} - \text{Price}}{\text{Face}} \times \frac{365}{\text{Days}} \times 100$$

**Example:** Same bill: 1.65 / 100 × 365/91 = **6.62%**. Yield (6.73%) is always higher than the discount rate, because the price is below face value.

#### Repo and reverse repo — one deal, two sides

- **Repo** — Sale of securities today with a firm agreement to buy them back on a fixed later date at a fixed higher price.
- **See** — Ch 6 (p. 20) for repo legs, title, collateral and documentation.

Repo interest on the first-leg money, at the agreed annual rate, for the days between the two legs:

$$\text{Repo interest} = \text{Funds borrowed} \times \text{Repo rate} \times \frac{\text{Days}}{365}$$

**Example:** Assume a bank borrows Rs 50 crore for 7 days under repo at 6.50%. Interest = 50,00,00,000 × 0.065 × 7/365. Full-year interest is 3,25,00,000; for 7 days = **Rs 6,23,288** (rounded). Second leg: the bank buys back the securities for 50,00,00,000 + 6,23,288 = **Rs 50,06,23,288**.

#### Remember this

- Yield divides by **price**; discount rate divides by **face**.
- In a repo the **seller** of securities is the **borrower** of funds.

### Topic 5 — The Capital Market

- **Capital market** — Where long-term loans and equity capital are raised and traded.
- **Users** — Companies, the Government, banks and financial institutions raise long-term funds here.
- **Instruments** — Shares, debentures and bonds are issued and traded.

| Instrument              | Holder is                   | Return                             | Repayment                      |
|-------------------------|-----------------------------|------------------------------------|--------------------------------|
| <b>Equity share</b>     | An owner of the company     | Dividend, if declared; not fixed   | No maturity date               |
| <b>Preference share</b> | An owner with a prior claim | Fixed dividend, paid before equity | Redeemable within a set period |

| Instrument              | Holder is                  | Return                      | Repayment                  |
|-------------------------|----------------------------|-----------------------------|----------------------------|
| <b>Debenture / bond</b> | A lender to the company    | Interest at a stated coupon | On the fixed maturity date |
| <b>Dated G-Sec</b>      | A lender to the Government | Coupon, usually half-yearly | On the fixed maturity date |

#### Settlement of equity trades

- **T+1 rolling** — Indian stock exchanges settle equity trades on the next working day; a Monday trade settles on Tuesday.
- **T+0** — A same-day cycle exists only as an **optional facility** in selected shares; it is not the default.
- **Stale cycles** — T+2 and T+3 for equity are gone.
- **Do not swap** — T+2 is the **forex spot** cycle, not the equity cycle.

#### Insurance companies and mutual funds as market users

- **Insurers** — Huge, steady buyers of long debt, because they collect premium today and pay claims far in the future.
- **Two groups** — **Life** insurers and **general** insurers; general insurance covers non-life risks such as motor, fire, marine and health.
- **Where funds go** — The funds they must maintain are invested in approved securities and placed as deposits with banks.
- **Mutual fund** — A **trust** that pools money from many investors with a common objective and invests in equities, bonds, money market or other securities.
- **Sharing** — Income and gains are shared in proportion to units held; twice the units gets twice the share.
- **Not a company or partnership** — A mutual fund is neither owned by its investors as a company nor a partnership.

| Body                                  | Role in an Indian mutual fund                                             |
|---------------------------------------|---------------------------------------------------------------------------|
| <b>Sponsor</b>                        | Promoter who sets up the fund                                             |
| <b>Trustees</b>                       | Hold the fund's property in trust for unit holders and watch over the AMC |
| <b>Asset Management Company (AMC)</b> | Manages the money and takes the investment calls                          |
| <b>Custodian</b>                      | Holds the securities of the schemes in safe keeping                       |

#### Remember this

- Equity settles **T+1**; forex spot settles **T+2**.

### Topic 6 — The Foreign Exchange Market

- **Forex market** — Where currencies of different countries are traded; every cross-border deal ends up here.
- **No single building** — It runs almost round the clock as New York, London, Tokyo, Hong Kong, Singapore, Paris and Frankfurt open one after another.
- **Law** — All foreign exchange dealing in India runs under the **Foreign Exchange Management Act, 1999 (FEMA)**.
- **Who may deal** — Only an **Authorised Dealer (AD)** licensed by RBI may deal in foreign exchange with customers; RBI is the regulator.

#### Settlement dates

- **Value dates** — Cash / ready settles the same day, tom the next working day, spot on the second working day (T+2, the market benchmark) and forward on any working day after spot.
- **See** — Ch 20 (p. 74) for value dates, outright and swap deals.
- **Both centres** — The spot date must be a working day in both centres whose currencies are exchanged; if either is shut, it rolls to the next common working day.
- **Spot is the base** — A forward rate is the spot rate adjusted by a premium or discount.

**Example:** A USD/INR spot deal struck on Monday, with no holidays, settles on **Wednesday**. If Wednesday is a holiday in New York, it settles on **Thursday**, the next day open in both centres.

### Benchmarks after LIBOR

- **LIBOR** — London Inter-Bank Offered Rate; it was built on what banks said they could borrow at, not on real deals, and it was manipulated.
- **End** — The remaining US dollar settings stopped being published after **30 June 2023**; no fresh contract may be priced on LIBOR.
- **Legacy loans** — A term loan priced at six-month USD LIBOR plus spread must move to **SOFR plus an agreed credit adjustment spread**.
- **MIBOR** — The rupee overnight benchmark used to price rupee interest rate swaps; it is a distractor in any dollar-loan question.
- **See** — Ch 25 (p. 94) for the benchmarks that replaced LIBOR.

### Remember this

- Spot = **T+2**, working day in **both** centres. USD LIBOR → SOFR.

## Topic 7 — Participants in the Financial Market

| Participant                   | What it does                                                                                         | Registered / approved by |
|-------------------------------|------------------------------------------------------------------------------------------------------|--------------------------|
| <b>Banks</b>                  | Work in money and capital markets; very active in bonds, limited exposure to equity and mutual funds | RBI                      |
| <b>Primary Dealers (PDs)</b>  | Buy G-Secs directly in RBI auctions and resell; underwrite primary issues                            | RBI                      |
| <b>Financial Institutions</b> | Lend long-term funds to industry and agriculture                                                     | RBI                      |
| <b>Stock exchanges</b>        | Platform for trading equity, debt and derivatives for investors                                      | SEBI                     |
| <b>Clearing house</b>         | Nets payments and deliveries and guarantees settlement                                               | SEBI / RBI               |
| <b>Brokers</b>                | Match buyers and sellers, build the order book, aid price discovery; earn brokerage                  | SEBI                     |
| <b>FPIs</b>                   | Foreign funds investing in Indian equity and debt through exchanges                                  | SEBI                     |
| <b>Custodians</b>             | Hold securities for clients and act on their instructions                                            | SEBI                     |
| <b>Depositories</b>           | Hold securities in demat form and move them between accounts                                         | SEBI                     |

### Banks

- **Both markets** — A bank works in the money market and the capital market.
- **Bonds** — In the capital market it is active in bonds both as investor and as trader.
- **Equity and funds** — It may hold equity and mutual fund units as part of fund management, within RBI limits.
- **Trap** — A bank is never a pure money market player.

### Primary Dealers — duties as well as rights

- **Role** — RBI-registered wholesalers of the G-Sec market; they buy in RBI auctions and resell.
- **Underwriting** — PDs together underwrite the whole notified amount of every dated G-Sec auction: part as **Minimum Underwriting Commitment**, the rest through **Additional Competitive Underwriting** bids.
- **Bidding commitment** — Each PD must bid for an agreed minimum in T-Bill and CMB auctions.
- **Success ratio** — At least **40%** of the bidding commitment in T-Bill and CMB auctions, judged **half-yearly**.
- **Market making** — PDs quote two-way prices in G-Secs so investors always have a counterparty.

### Financial Institutions and their foreign lenders

- **Resources** — FIs raise funds through long-term bonds and borrowings from international institutions.
- **All India FIs** — NABARD, SIDBI, NHB, EXIM Bank and **NaBFID** (National Bank for Financing Infrastructure and Development), all regulated and supervised by RBI.

| Lender      | Full name                                             | What it lends for                                    |
|-------------|-------------------------------------------------------|------------------------------------------------------|
| <b>IFC</b>  | International Finance Corporation                     | Loans and equity for private sector projects         |
| <b>IDA</b>  | International Development Association                 | Soft, low-cost loans to the poorest member countries |
| <b>IBRD</b> | International Bank for Reconstruction and Development | Loans to middle-income and creditworthy governments  |
| <b>ADB</b>  | Asian Development Bank                                | Development lending across Asia-Pacific              |

### Remember this

- PD success ratio: **40%** of bidding commitment, **half-yearly**.

## Topic 8 — Market Infrastructure: Exchanges, CCIL, Custody and Depositories

- **Stock exchange** — A regulator-approved place where securities are traded for investors through brokers; open outcry has given way to online trading.
- **Clearing house** — Nets payments and deliveries between members and then **guarantees** every payment and delivery.
- **Central counterparty** — The technical name for this role; a buyer gets shares even if the selling member fails.
- **Broker** — Only a SEBI-approved broker may trade on an exchange; it builds the order book, aids price discovery and answers for the contract, earning **brokerage**.

### CCIL and NDS-OM

- **CCIL** — The Clearing Corporation of India Ltd is the central counterparty for **G-Secs, TREPS and inter-bank forex** deals.
- **Guarantee** — It guarantees settlement in those segments, as an exchange clearing house does for equity.
- **NDS-OM** — RBI's electronic order-matching platform for trading G-Secs.

### Foreign Portfolio Investors

- **FII route gone** — The old FII and sub-account routes were merged into a single **FPI** route registered with SEBI.
- **Two categories** — Category I and Category II only; Category III was dropped.
- **10% line** — A single FPI with its investor group must stay **below 10%** of a company's paid-up equity; at or above 10% the holding is treated as **FDI**.

### Custodians and depositories

- **Custodian** — Holds securities for customers and services them: collects dividend and interest, handles corporate actions, reports holdings.
- **Banks as custodians** — They already handle payment and settlement, so most banks do this work.
- **Depository** — Holds securities in demat (electronic) form and, on the instruction of the exchange clearing house backed by documents, moves them from seller to buyer.
- **Indian depositories** — **NSDL** (National Securities Depository Limited) and **CDSL** (Central Depository Services Limited).

| Point           | Custodian                                  | Depository                                        |
|-----------------|--------------------------------------------|---------------------------------------------------|
| Core job        | Keeps and services securities for a client | Maintains securities in demat form for the market |
| Whose agent     | Acts for the investor                      | Runs the electronic record for all investors      |
| Typical entity  | A bank                                     | NSDL, CDSL                                        |
| Investor access | Direct contract with the client            | Only through a Depository Participant             |



- **Depository Participant (DP)** — The depository's agent through which a demat account is opened; banks and brokers commonly act as DPs.
- **ISIN** — International Securities Identification Number: one unique code per security used by every depository, exchange and clearing house.

**Remember this**

- Depository moves shares on the **clearing house's** instruction; investors reach it only via a **DP**.

**Topic 9 — A Bank's Investment Book and Capital**

- **Own book** — A treasury holds a large securities book for the bank itself.
- **Framework** — RBI Commercial Banks – Investment Portfolio Directions, 2025 (28 November 2025); they carry the 2023 Classification, Valuation and Operation Directions, effective 1 April 2024.
- **Three categories** — HTM at amortised cost; AFS at fair value, with gains and losses to the **AFS-Reserve** within own funds; FVTPL, including all non-group equity, at fair value straight to profit and loss; subsidiaries, JVs and associates at acquisition cost.
- **Equity in HTM** — Not allowed; equity has no maturity and no contracted cash flows.
- **See** — Ch 15 (p. 54) for the entry tests, valuation, reclassification and HTM-sale rules.

**Example: Sorting a book:** G-Secs to keep till maturity → **HTM** at amortised cost. Corporate bonds the bank may hold or sell → **AFS**, changes to AFS-Reserve. Equity bought for short-term gain → **FVTPL**, changes to P&L. Stake in the bank's own asset management subsidiary → group holding at **acquisition cost**.

**Why classification matters to capital**

- **Indian minimums** — CET1 5.5%, Tier 1 7% and CRAR 9% (Basel's global floor is 8%), plus a 2.5% Capital Conservation Buffer held in CET1, giving a working floor of **11.5%**; dipping into the buffer restricts dividends and bonuses.
- **See** — Ch 5 (p. 16) for the Basel III ratios and the Capital Adequacy Directions, 2025.

**Remember this**

- HTM · AFS · FVTPL; HFT sits inside FVTPL; no HTM cap.
- Capital:  $5.5 / 7 / 9 + 2.5 = 11.5\%$ .

**CTP | Module 1 | CH-1 | MCQs**

**Q1. A 364-day Treasury Bill and a 10-year dated security are both issued by the Government of India. How are they classified?** [Ref: Topic 2, p. 2]

- (a) Both are money market instruments, as the issuer is the same
- (b) The T-Bill is money market; the 10-year paper is capital (debt) market
- (c) Both are capital market instruments, as both are government debt
- (d) The T-Bill is capital market; the 10-year paper is money market

**Q2. Bank A lends Rs 200 crore to Bank B for 10 days without taking any security. This deal belongs to which segment?** [Ref: Topic 3, p. 2]

- (a) Notice money
- (b) Call money
- (c) Term money
- (d) Repo

**Q3. A 91-day Treasury Bill of face value Rs 100 is bought at Rs 98.80. Its yield (365-day basis) is about:** [Ref: Topic 4, p. 3]

- (a) 4.81% p.a.
- (b) 1.21% p.a.
- (c) 4.87% p.a.
- (d) 4.94% p.a.

**Q4. For a 91-day T-Bill bought at Rs 98.35, which figure is the discount rate (not the yield)?** [Ref: Topic 4, p. 3]

- (a) 6.62% p.a.
- (b) 6.73% p.a.
- (c) 1.68% p.a.
- (d) 6.53% p.a.

**Q5. Assume a bank borrows Rs 100 crore for 14 days under repo at 6.25% p.a. (Actual/365). The repo interest is:** [Ref: Topic 4, p. 3]

- (a) Rs 24,30,556
- (b) Rs 23,97,260
- (c) Rs 6,25,00,000
- (d) Rs 11,98,630

**Q6. Which RBI window is the floor of the liquidity corridor, and what is its key feature?** [Ref: Topic 3, p. 2]

- (a) Fixed rate reverse repo; RBI gives securities as collateral
- (b) Marginal Standing Facility; banks dip into SLR
- (c) Standing Deposit Facility; RBI gives no collateral
- (d) Bank Rate; it is used only for penal charges

**Q7. A USD/INR spot deal is struck on Monday. Wednesday is a holiday in New York only. The deal settles on:** [Ref: Topic 6, p. 3]

- (a) Monday
- (b) Tuesday
- (c) Wednesday
- (d) Thursday

**Q8. A legacy term loan priced at six-month USD LIBOR plus spread comes up for reset. What is the correct treatment?** [Ref: Topic 6, p. 3]

- (a) Shift to SOFR plus an agreed credit adjustment spread
- (b) Continue on the last published LIBOR setting
- (c) Shift to FBIL Overnight MIBOR plus the old spread
- (d) Let the branch fix a rate of its own choice

**Q9. A foreign fund and its investor group reach a 10% holding of the paid-up equity of a listed Indian company. How is the holding treated?** [Ref: Topic 8, p. 4]

- (a) It remains portfolio investment under Category II
- (b) It is treated as Foreign Direct Investment
- (c) It becomes a Category III FPI holding
- (d) It must be sold within one trading day

**Q10. Within an Indian mutual fund, which body actually manages the money and takes investment calls?** [Ref: Topic 5, p. 3]

- (a) The sponsor
- (b) The trustees
- (c) The custodian
- (d) The asset management company

**Q11. An investor sells shares through a broker. Who instructs the depository to move them out of the seller's demat account?** [Ref: Topic 8, p. 4]

- (a) The issuing company
- (b) The buying broker
- (c) The exchange clearing house, backed by documents
- (d) The buyer's bank

**Q12. A bank buys corporate bonds that it may hold or sell as rates move. Under the Investment Portfolio Directions, 2025, where does an unrealised gain go?** [Ref: Topic 9, p. 5]

- (a) To the AFS-Reserve within own funds
- (b) Straight to the profit and loss account
- (c) Nowhere, as the bonds stay at cost
- (d) To the Capital Reserve directly

**Q13. Which statement on Primary Dealers is correct?** [Ref: Topic 7, p. 4]

- (a) They need a 25% success ratio in dated G-Sec auctions every quarter
- (b) They need a 40% success ratio of bidding commitment in T-Bill and CMB auctions, judged half-yearly
- (c) They are registered with SEBI and trade only equity
- (d) They may underwrite but need not quote two-way prices

**Q14. An Indian bank must hold capital above which level to avoid restrictions on dividends and bonuses?** [Ref: Topic 9, p. 5]

- (a) 8% of risk weighted assets
- (b) 9% of risk weighted assets
- (c) 10.5% of risk weighted assets
- (d) 11.5% of risk weighted assets

**Q15. Which institution is the central counterparty for G-Secs, TREPS and inter-bank forex deals in India? [Ref: Topic 8, p. 4]**

- (a) NSDL
- (b) CDSL
- (c) The Clearing Corporation of India Ltd
- (d) FBIL

**Answer key**

| Q | Ans | Q | Ans | Q | Ans | Q  | Ans | Q  | Ans |
|---|-----|---|-----|---|-----|----|-----|----|-----|
| 1 | b   | 4 | a   | 7 | d   | 10 | d   | 13 | b   |
| 2 | a   | 5 | b   | 8 | a   | 11 | c   | 14 | d   |
| 3 | c   | 6 | c   | 9 | b   | 12 | a   | 15 | c   |

## CH-2 Treasury

### Topic 1 — The Bank Treasury and the Reserve Ratios

- **Treasury** — The desk that handles the bank's own money; a branch deals with customers, the treasury deals with the market.
- **Work** — It borrows and lends funds, buys and sells securities, deals in foreign exchange and keeps the bank inside RBI's reserve rules.
- **Old role** — In earlier days the treasury of an Indian bank did little more than meet two ratios: CRR and SLR.

#### The two reserve ratios

- **NDTL** — Net Demand and Time Liabilities: demand deposits plus time deposits plus other liabilities, less what other banks owe the bank. Both ratios use this base.
- **CRR** — Cash Reserve Ratio: the share of NDTL kept as a **cash balance with RBI**, under **Section 42 of the RBI Act, 1934**.
- **SLR** — Statutory Liquidity Ratio: the share of NDTL held in **cash, gold or notified securities** (mainly Central and State Government bonds), under **Section 24 of the Banking Regulation Act, 1949**.
- **CRR moved** — RBI cut CRR in four steps of 25 bp between September and November 2025 to **3%**; 4.50% and 4% are stale.
- **SLR steady** — 18% since **11 April 2020**.
- **Dead cost** — No interest has been paid on CRR since the 2006 amendment, which also removed the old 3% floor and 20% ceiling.
- **Thin market** — When treasuries only met these ratios, dealing was thin and money market rates showed compliance needs, **not true liquidity**.
- **See** — Ch 4 (p. 12) for NDTL, the CRR fortnight and daily floor, penal interest and the SLR rules.

Both requirements are a straight percentage of NDTL:

$$\text{CRR} = 0.03 \times \text{NDTL}$$

$$\text{SLR} = 0.18 \times \text{NDTL}$$

**Example:** NDTL Rs 80,000 crore: CRR =  $0.03 \times 80,000 = \text{Rs } 2,400$  crore with RBI; SLR =  $0.18 \times 80,000 = \text{Rs } 14,400$  crore in approved assets. Using the stale 4.50% and 19.50% would wrongly give Rs 3,600 crore and Rs 15,600 crore.

#### Remember this

- CRR **3%** (Sec 42, RBI Act) earns nothing; SLR **18%** (Sec 24, BR Act) earns coupon.

### Topic 2 — How the Money Market Was Widened

- **Money market** — Market for funds and paper with an original tenor of **one year or less**; longer paper belongs to the capital market.
- **Aim** — RBI widened and deepened it so treasuries had a real place to lend and borrow.

| Step                      | What it did                                                                                                                                                                         |
|---------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>DFHI, 1988</b>         | Discount and Finance House of India Ltd set up as a <b>market maker</b> — quoting buying and selling prices all the time — in call and notice money, T-Bills and rediscounted bills |
| <b>CP and CD, 1989-90</b> | Commercial Paper and Certificate of Deposit added short paper beyond call money and T-Bills                                                                                         |
| <b>CCIL</b>               | Became central counterparty, so each side of a G-Sec, tri-party repo or forex deal faces CCIL, not the other bank                                                                   |
| <b>Repo and TREPS</b>     | Moved most inter-bank funding from unsecured call money to secured lending                                                                                                          |

#### The inter-bank money ladder

- **Ladder** — Call money is overnight, notice money 2 to 14 days and term money 15 days to one year, all unsecured; repo and TREPS are secured against government securities.
- **See** — Ch 6 (p. 20) for call, notice and term money and the secured segments.

#### Remember this

- A stem saying banks lend to one another for **two to fourteen days** means **notice money**.

### Topic 3 — Ceilings on Call and Notice Money

- **Why a cap** — Call and notice money is unsecured, so RBI caps how much a bank may take.
- **Capital funds** — Tier 1 plus Tier 2 capital as at the **close of the previous financial year**, not today's figure.
- **Scheduled commercial banks (incl. small finance banks)** — May borrow call and notice money up to **100%** of capital funds as daily average in the reporting fortnight and **125%** on any single day.
- **See** — Ch 6 (p. 20) for the ceilings for payments banks, RRBs, co-operative banks and primary dealers.
- **Lending side** — Older study material also lists lending ceilings of **25%** of capital funds (fortnight average) and **50%** on any day; the current RBI Directions set prudential ceilings for **borrowing**, and lending runs within Board-approved limits.

**Example:** Capital funds Rs 6,000 crore. Wednesday call borrowing Rs 8,000 crore; fortnight average Rs 5,500 crore. Day ceiling =  $125\% \times 6,000 = \text{Rs } 7,500$  crore — breached by Rs 500 crore. Average ceiling =  $100\% \times 6,000 = \text{Rs } 6,000$  crore — met. A pass on the average **does not cure** a breach on the day.

#### Remember this

- Borrowing: **100%** fortnight average, **125%** any day — check both separately.

### Topic 4 — Money Market Instruments and the RBI Corridor

- **Instruments** — T-Bills (91, 182 and 364 days), CMBs (under 91 days), CP and bank CDs (7 days to one year, Rs 5 lakh multiples, demat), repo (mostly 1 to 14 days) and TREPS, which replaced CBLO in November 2018.
- **No 271-day bill** — Only three T-Bill tenors exist; a 271-day bill is a favourite wrong option.
- **CP rules** — RBI Commercial Paper and Non-Convertible Debentures Directions, 2024: minimum 7 days, maximum one year. The 15-day minimum is outdated.