

THE DEALING ROOM

EXPLANATIONS BOOK

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Tony Illis

The Dealing Room Explanations Book

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TABLE OF CONTENTS

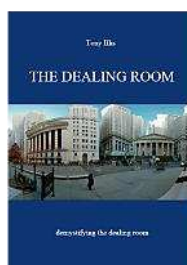
TABLE OF CONTENTS.....	5
THE FIMA CERTIFICATE.....	7
1. INTRODUCTION	11
2. THE BANKING BUSINESS	13
3. THE STRUCTURE OF FINANCIAL MARKETS ORGANIZATIONS.....	14
4. EQUITY.....	16
5. LEVERAGED PRODUCTS.....	25
6. OPTIONS AND FUTURES	48
7. SECURITIES FINANCING.....	65
8. BONDS.....	70
9. INTEREST RATE SWAPS.....	81
10. CURRENCY TRADING	91
11. CREDIT DEFAULT SWAPS.....	95
12. STRUCTURED FINANCE.....	97
13. TREASURY.....	103
14. GREEKS AND POSITION MANAGEMENT	109
15. RISK MANAGEMENT.....	129
16. LEGAL	140
17. COMPLIANCE.....	141
ANSWERS	157

THE FiMa CERTIFICATE

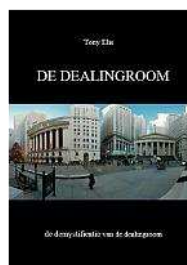
The **Financial Markets Professional** training is provided by TLM Academy and the University of Amsterdam. The training has been given within the top tier banks in the Netherlands since 2009. The training course consists of fourteen modules of three hours each. If the FiMa exam is passed the participant receives a certification as *Financial Markets Professional*.

The FiMa certificate is a post-graduate diploma from the University of Amsterdam which results in a registration in the worldwide FiMa-register. The title FiMa is a globally recognized and is an accredited title which alumni can put behind their name. The curriculum for the FiMa certificate runs parallel with the chapters of the book *The Dealing Room* (available in English and Dutch).

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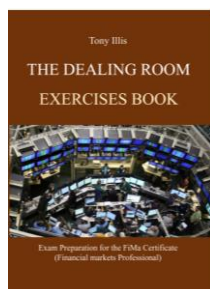


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EXPLANATIONS

1. INTRODUCTION

1

Book Chapter 1 | Introduction
Section 1.1
Subject: Changing Times

ANSWER: D

The five factors contributing to a company's success, as recognized by Idea Lab are:

1. Product/Idea
2. Capital
3. Timing
4. Employees
5. Leadership

Answer D is not one of these five and is therefore false.

2

Book Chapter 1 | Introduction
Section 1.1
Subject: Changing Times

ANSWER: B

Timing is considered by Idea Lab to be the most important factor contributing to a company's success?

Answer B is correct

3

Book Chapter 1 | Introduction
Section 1.1
Subject: Changing Times

ANSWER: B

The Channels business is an area in which banks are facing increasing competition as documented by Idea Lab, but that competition is NOT coming from entertainment companies.

Answer B is false.

4

Book Chapter 1 | Introduction
Section 1.2
Subject: Terminology

ANSWER: B

The Investor Market is not a recognized market type in financial services.

Answer B is false.

5

Book Chapter 1 | Introduction
Section 1.2
Subject: Terminology

ANSWER: A

An organization that *“securely preserves and protects securities on behalf of its clients and is responsible for cash- and securities settlement for their clients for trades done with other trading members”* is a Custodian.

Answer A is correct.

6

Book Chapter 1 | Introduction
Section 1.2
Subject: Terminology

ANSWER: B

An organization that *“fulfills a buffer function for the traders on the one hand and the central counterparty on the other hand”*, is a Clearing House.

Answer B is correct.

7

Book Chapter 1 | Introduction
Section 1.2
Subject: Terminology

ANSWER: D

An organization that *“takes custody of securities with the aim of being able to automatically process transactions with those securities”* is a Central Securities Depository (CSD).

Answer D is correct.

8

Book Chapter 1 | Introduction
Section 1.2
Subject: Terminology

ANSWER: D

The risk management strategy *“employed to offset losses in investments by taking an opposite position in a related asset”*, is called Hedging.

Answer D is correct.

9

Book Chapter 1 | Introduction
Section 1.2
Subject: Terminology

ANSWER: **A**

The trading strategy that is described with *“taking advantage of price differences in the same product in different markets, or taking advantage of differences in payable versus receivable interest and/or dividend between long and short products, either physical or synthetic”*, is called Arbitrage.

Answer A is correct.

10

Book Chapter 1 | Introduction
Section 1.2
Subject: Terminology

ANSWER: **B**

The trading technique in which an investor *“sells a security with plans to buy it back later, resulting in a credit on the cash side of the trading balance sheet and a debit on the securities side of the trading balance sheet”*, is also known as going Short.

Answer B is correct.

2. THE BANKING BUSINESS

11

Book Chapter 2 | The Banking Business
Section 2.1
Subject: Cases

ANSWER: **D**

DSB went bankrupt on 19 October 2009 due to public scrutiny on excessive commissions charged by DSB and on nepotistic management and a bank run.

Answer D is correct.

12

Book Chapter 2 | The Banking Business
Section 2.2
Subject: The Role of Banks in Society

ANSWER: **D**

Prop trading is historically NOT considered to be a primary function of banks. The others are.

Answer D is correct.

13

Book Chapter 2 | The Banking Business
Section 2.2
Subject: The Role of Banks in Society

ANSWER: D

High Frequency Trading is traditionally NOT a separate organizational division within banks. The other three are.

Answer D is correct.

14

Book Chapter 2 | The Banking Business
Section 2.2
Subject: The Role of Banks in Society

ANSWER: C

A client with more than €1,000,000 worth of savings and/or more than €500,000 in investments will at most banks be banking at the Private Banking division.

Answer C is correct.

15

Book Chapter 2 | The Banking Business
Section 2.2
Subject: The Role of Banks in Society

ANSWER: D

The desk that is traditionally responsible for *managing currency and liquidity challenges and minimizing their clients' interest payments, cash pooling and cash netting* is the Liquidity Management Desk

Answer D is correct.

3. THE STRUCTURE OF FINANCIAL MARKETS ORGANIZATIONS

16

Book Chapter 3 | The Structure of Financial Markets Organizations
Section 3.1
Subject: Cases

ANSWER: A

The American company that went bankrupt on 1 December 2001 due to creative bookkeeping via so-called mark-to-market accounting, was Enron.

Answer A is correct.

17

Book Chapter 3 | The Structure of Financial Markets Organizations
Section 3.2
Subject: Organizational Structure in Financial Markets

ANSWER: **D**

The product type that is NOT an asset class after which financial markets organizations are traditionally structured, is Mortgage Products.

Answer D is correct.

18

Book Chapter 3 | The Structure of Financial Markets Organizations
Section 3.3
Subject: The Roles Within Financial Markets

ANSWER: **C**

The department that is responsible for ensuring that new customers are receiving their CDD check and their KYC check, and making sure that customers are inserted into the banks front-office and back-office systems, is the Client Onboarding department.

Answer C is correct.

19

Book Chapter 3 | The Structure of Financial Markets Organizations
Section 3.3
Subject: The Roles Within Financial Markets

ANSWER: **D**

Sales is a client-contact department; they are responsible for bringing in *new* clients. Client Onboarding is also a client-contact department, but only comes into play when Sales has landed a new client; they then perform all of the onboarding tasks including all the checks against regulations and policies. Account Management is also a client-contact department; they responsible for business development with *existing* clients. Trading is the only department that does *not* have direct contact with customers, they only deal with counterparties.

Answer D is correct.

20

Book Chapter 3 | The Structure of Financial Markets Organizations
Section 3.3
Subject: The Roles Within Financial Markets

ANSWER: **B**

The correct depiction of the three lines of defense 1st line: Front Office, 2nd line: Risk Management, 3rd line: Audit.

Answer B is correct.

4. EQUITY

21

Book Chapter 4 | Equity
Section 4.1
Subject: Cases

ANSWER: **D**

The Dutch company that fired its CEO within one month after its IPO for misleading shareholders was World Online.

Answer D is correct.

22

Book Chapter 4 | Equity
Section 4.2
Subject: Shares

ANSWER: **C**

Market capitalization refers to the total cash market value of a company's outstanding shares of stock. Commonly referred to as "market cap," it is calculated by multiplying the total number of a company's outstanding shares by the current market price of one share.

Answer C is correct.

23

Book Chapter 4 | Equity
Section 4.2
Subject: Shares

ANSWER: **D**

All the four factors mentioned are factors that determine the price of a share. Only company performance and dividend level determine the *value* of a share.

Answer D is correct.

24

Book Chapter 4 | Equity
Section 4.2
Subject: Shares

ANSWER: **D**

The earnings per share (EPS) are calculated as net profit divided by the number of shares.

$$\text{Earnings Per Share (EPS)} = \frac{\text{Net Profit}}{\text{\#Shares}} = \frac{€1,600,000,000}{€1,000,000,000} = 1.6 - 25\% \text{ tax} = 1.2$$

Answer D is correct.