

Indicative MCQs for Limited Insolvency Examination

SERIES – 6

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Multiple Choice Questions (MCQs)

on

Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act, 2002

Q.1. Which of the following statements regarding security enforcement is not true:

- A** Any security interest can be enforced by secured creditor without intervention of the Court or Tribunal except the provisions contained in Section 69 or 69A of Transfer of Property Act
- B** If funds are raised through debt securities, then action can be initiated even if secured debt was not classified as NPA
- C** No action can be taken if the debt is time barred or it involves agricultural land
- D** No action can be taken when amount of due is more than Rs. 5 lakhs or when amount due is less than 40% of the principal amount and interest thereon

Q.2. Which of the following is not a security interest:

- A** Any mortgage, charge, hypothecation, assignment or any right, title or interest of any kind, on tangible asset, retained by the secured creditor as an owner of the property, given on hire or financial lease or conditional sale or under any other contract
- B** Such right, title or interest in any intangible asset or assignment or licence of such intangible asset which secures the obligation to pay any unpaid portion of the purchase price of the intangible asset or the obligation incurred or any credit provided to enable the borrower to acquire the intangible asset or licence of intangible asset
- C** A lien on any goods, money or security given by or under the Indian Contracts Act, 1872 or the Sale of Goods Act, 1930 or any other law for the time being in force
- D** Lien of goods, pledge of movables, security interest of less than Rs. One Lakh

Q.3. Which of the following is not a secured creditor:

- A** Debenture trustee appointed by any bank or financial institution
 - B** Asset reconstruction company whether acting as such or managing a trust set up by such asset reconstruction company for the securitisation or reconstruction, as the case may be
 - C** Any bank or financial institution or any consortium or group of banks or financial institutions holding any right, title or interest upon any tangible asset or intangible asset
 - D** Any person who has pledged movables within the meaning of Section 172 of the Indian Contract Act, 1872
-

Q.4. Section 3(1)(b) of SARFAESI Act provides that the net owned fund of an asset reconstruction company should:

- A** Not be less than two crore rupees or such higher amount as the Reserve Bank may notify
 - B** Not be less than three crore rupees or such higher amount as the Reserve Bank may notify
 - C** Not be less than four crore rupees or such higher amount as the Reserve Bank may notify
 - D** Not be less than one crore rupees or such higher amount as the Reserve Bank may notify
-

Q.5. Which of the following is not a condition that is considered by the RBI in case of application for registration or carrying on business by an Asset Reconstruction Company (ARC):

- A** that the ARC has not incurred losses in any of the three preceding financial years
 - B** that the directors of ARC have not entered into related party transactions
 - C** that the directors of ARC have adequate professional experience in matters related to finance, securitisation and re-construction
 - D** That a sponsor of an ARC is a fit and proper person in accordance with the criteria issued by RBI
-

Q.6. Which of the following is not a ground for cancellation of certificate of registration granted to an asset reconstruction company by Reserve Bank of India:

- A When the ARC fails to comply with any direction issued by RBI
 - B When the ARC ceases to receive or hold any investment from a qualified buyer
 - C When the ARC fails to maintain accounts in accordance with the requirements of any law
 - D When the ARC has incurred loss for a year
-

Q.7. What is the stamp duty to be paid in respect of any document executed by any bank or financial institution for issuing a debenture or bond:

- A One rupee for every Rs. 100 or part thereof
 - B One rupee for every Rs. 1000 or part thereof
 - C It shall be exempted from stamp duty
 - D It depends from State to State
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Q.8. Before which for a can an asset reconstruction company file an application for enforcement of its security interest:

- A Debt Recovery Tribunal
 - B High Court
 - C District Court
 - D National Company Law Tribunal
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Q.9. An application under Section 5A of the SARFAESI Act for transfer of applications pending before two or more Debt Recovery Tribunals may be filed by an Asset Reconstruction Company before:

- A High Court
 - B National Company Law Appellate Tribunal
 - C Special Court
 - D Debt Recovery Appellate Tribunal
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Q.10. Which of the following is not a Public Financial Institution:

- A** National Bank for Agriculture & Rural Development (NABARD)
 - B** Life Insurance Corporation of India (LIC)
 - C** State Financial Corporations
 - D** Axis Bank Limited
-

Q.11. What is the time limit within which the secured creditor can initiate an action for enforcement of security:

- A** If the liability is not discharged within 60 days of receipt of notice from the secured creditor
 - B** If the liability is not discharged within 30 days of receipt of notice from the secured creditor
 - C** If the liability is not discharged within 45 days of receipt of notice from the secured creditor
 - D** If the liability is not discharged within 90 days of receipt of notice from the secured creditor
-

Q.12. Which of the following is not an essential ingredient to initiate action for enforcement of security under this act:

- A** There must be a security agreement in which borrower is under liability of the secured creditor
 - B** There must be a default in repayment of secured debt or instalment thereof
 - C** The account must be classified as Non-Performing Asset
 - D** The security interest must be at least Rs. 20,000
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Q.13. When does an asset become non performing:

- A** When the instalments and/or interest is not paid for a period exceeding 60 days
 - B** When the instalments and/or interest is not paid for a period exceeding 120 days
 - C** When the instalments and/or interest is not paid for a period exceeding 90 days
 - D** When the instalments and/or interest is not paid for a period exceeding 180 days
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Q.14. If there are more than one borrower, how should the demand notice be served:

- A** Demand notice must be served only on those borrowers whose borrowing is more than 40% of the debt
 - B** Demand notice must be served on any one of the borrowers
 - C** Demand notice must be served on the person whose name appears first in the list
 - D** Demand notice must be served on all borrowers
-

Q.15. In case of joint financing under this Act, a creditor can:

- A** Take any action independently
 - B** Take action only when it is agreed upon by creditors holding 60% of the amount outstanding on record date
 - C** Take action only when it is agreed upon by creditors holding 50% of the debt outstanding as on that date
 - D** Take action with the permission of all the other creditors involved
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Q.16. Which of the following does not fall under financial asset:

- A** A mortgage, charge, hypothecation or pledge of movable property
 - B** Any right or interest in the security, whether full or part underlying such debt or receivables
 - C** Any financial assistance
 - D** Prepaid expenses undertaken with respect to a movable or immovable property
-

Q.17. If the payment is not made by the borrower in the prescribed time after receipt of notice, which of the following steps cannot be taken by the secured creditor:

- A** Take possession of the secured assets of the borrower including the right to transfer by way of lease, assignment or sale for realising the secured asset
 - B** Appoint any person (manager) to manage the secured assets, the possession of which has been taken over by the secured creditor
 - C** To sell the assets of the borrower without further procedures that is in the possession of the secured creditor and utilise the amount against the amount due by the borrower
-

D Takeover the management of business of the borrower

Q.18. Can debtor of a borrower make payment directly to the Bank:

- A** No, the debtor of borrower cannot be asked to make payment directly to the Bank
- B** Yes, where the debtor of borrower has acquired any of the secured assets from the borrower and from whom any money is due to the borrower
- C** The debtor of borrower can make payment directly to the Bank but with the prior approval of RBI
- D** The debtor of borrower can make payment directly to the Bank, if the Bank agrees to such an arrangement

Q.19. What is the eligibility of an authorised officer appointed by a secured creditor:

- A** He should not be below Deputy General Manager of a public sector bank or equivalent
- B** He should not be below Chief Manager of a public sector bank or equivalent
- C** He should not be below Assistant Manager of a public sector bank or equivalent
- D** He should not be below Senior Manager of a public sector bank or equivalent

Q.20. In case the secured creditor expects resistance, who can he request to take possession of the assets or documents:

- A** Chief Metropolitan Magistrate or the District Magistrate within whose jurisdiction the asset is located
- B** Principal Junior Civil Judge within whose jurisdiction the asset is located
- C** Assistant Civil Judge or Additional Civil Judge within whose jurisdiction the asset is located
- D** Chief Judicial Magistrate within whose jurisdiction the asset is located

Q.21. What can a secured creditor do if his dues are not fully satisfied with the sale proceeds of the secured asset:

- A** He cannot take further action. He has to satisfy his claims with the amount received after selling the secure asset

- B** He can proceed against the debtor by filing an application before Debt Recovery Tribunal
- C** He can proceed against the debtor by filing an application before the High Court
- D** He cannot take further action unless the debtor agrees to the payment of the remainder amount

Q.22. Which of the following statements relating to Chief Metropolitan Magistrate or the District Magistrate assisting the secured creditor in taking possession of the secured asset is false:

- A** Any act done in pursuance of this shall not be called in question in any court or before any authority
- B** They may take any steps and use any force as may be necessary in their opinion for securing compliance
- C** They may authorise any subordinate officer to take possession of such assets and documents
- D** The requirement of filing affidavit shall apply in all cases, whether any proceeding is pending before them or not, on the date of commencement of the Act

Q.23. What is the time limit within which Chief Metropolitan Magistrate or District Magistrate shall pass an order after receipt of the affidavit from the authorised officer of the secured creditor:

- A** Within 15 days of receipt of application and within such further period not exceeding in aggregate 30 days
- B** Within 30 days of receipt of application and within such further period not exceeding in aggregate 60 days
- C** Within 45 days of receipt of application and within such further period not exceeding 90 days
- D** Within 60 days of receipt of application and within such further period not exceeding 120 days

Q.24. Taking over of the management of business of a borrower by an asset reconstruction company falls under:

- A** Section 15
- B** Section 6 (1)

- C Section 9(a)
- D Section 13(4)(b)

Q.25. Taking over the management of business of a borrower by a secured creditor falls under:

- A Section 13(4)(b)
- B Section 9(a)
- C Section 6(1)
- D Section 15

Q.26. When a secured creditor takes over the management of business of a borrower, he may appoint:

- A As many persons as it thinks fit to be the directors/administrators of the business of that borrower, as the case may be
- B As many persons as it thinks fit to be the registered valuers of the business of that borrower
- C The auditors of the business of that borrower
- D The liquidator who shall take over the liquidation proceedings

Q.27. Which of the following statement with respect to secured creditor taking over the management of the business of the borrower being a company is false:

- A It shall not be unlawful for the shareholders of such company or any other person to nominate or appoint any person to be a director of the company
- B No resolution passed at any meeting of the shareholders shall be given effect unless approved by the secured creditor
- C No meeting of the shareholders can be held unless approved by the secured creditor
- D No proceeding for the winding up of such company or appointment of receiver thereof shall lie in any court, except with the consent of the secured creditor

Q.28. What happens to the director in case of loss of his office or pre mature termination under this act by the secured creditor:

- A He shall be entitled to compensation as per the amount prescribed by the Court

- B** He shall be entitled to compensation as per the contract of management between him and the borrower
- C** He shall not be entitled to any compensation except with the previous permission of the secured creditor
- D** He shall not be entitled to any compensation at all in any case

Q.29. What is the time limit within which any person aggrieved by any measure taken by secured creditors file an application to the Debt Recovery Tribunal:

- A** Within 45 days from the date on which such measure had been taken
- B** Within 30 days from the date on which such measure had been taken
- C** Within 15 days from the date on which such measure had been taken
- D** Within 60 days from the date on which such measure had been taken

Q.30. Which of the following does not fall within the jurisdiction for filing an application by any person aggrieved by any measure taken under Section 13(4) by secured creditors:

- A** Where the cause of action arises, wholly or in part
- B** Where the secured asset is located
- C** Where the branch or any other office of a bank or financial institution is maintaining an account in which debt claimed is outstanding for the time being
- D** Where the borrower resides

Q.31. What is the time limit within which the Debt Recovery Tribunal must dispose of application filed under Section 17 with respect to any person aggrieved by measures taken by the secured creditors:

- A** Within 60 days of such application and the extension being not more than 4 months
- B** Within 30 days of such application and the extension being not more than 2 months
- C** Within 90 days of such application and the extension being not more than 4 months
- D** Within 120 days of such application and the extension being not more than 6 months

Q.32. What happens when the Debt Recovery Tribunal does not dispose of the case under Section 17 within the prescribed time limit:

- A** The Appellate Tribunal make take such cases on its own motion and may make an order for expeditious disposal
- B** Only the creditor may make an application to Debt Recovery Appellate Tribunal and the Appellate Tribunal may make an order for expeditious disposal
- C** Such cases stand transferred to the Appellate Tribunal
- D** Any party to the application may make application to Debt Recovery Appellate Tribunal and the Appellate Tribunal may make an order for expeditious disposal

Q.33. In case a borrower resides in Jammu & Kashmir, with whom shall an application be filed:

- A** Court of District Judge in the State having jurisdiction over the secured creditor
- B** Court of District Judge in that State having jurisdiction over the borrower
- C** High Court of the State
- D** Court of the Chief Metropolitan Judge having jurisdiction over the secured creditor

Q.34. In case of appeal by the borrower, what is the amount to be deposited with the Appellate Tribunal:

- A** Fifty percent of the amount of debt due
- B** Forty percent of the amount of debt due
- C** Sixty percent of the amount of debt due
- D** Twenty percent of the amount of debt due

Q.35. In case of a borrower residing in Jammu & Kashmir, which of the following shall be the Appellate Tribunal:

- A** Court of District Judge in the State having jurisdiction over the secured creditor
- B** Court of District Judge in that State having jurisdiction over the borrower
- C** High Court of the State
- D** Court of the Chief Metropolitan Judge having jurisdiction over the secured creditor

Q.36. What is the time period for the validity of notice of caveat:

- A 60 days from the date of lodgement
- B 90 days from the date of lodgement
- C 120 days from the date of lodgement
- D 30 days from the date of lodgement

Q.37. What is the purpose of Central Registry:

- A Registration of transaction of securitisation and reconstruction of financial assets and creation of security interest
- B Storehouse of information relating to securitized assets
- C Registration of information relating to secured creditors and related borrowers
- D Collection of information related to securitization cases

Q.38. To whom shall the Central Government delegate its powers and functions in relation to establishment, operations and regulations of the Central Registry:

- A Ministry of Communications and Information Technology
- B Debt Recovery Tribunal
- C Ministry of Information and Broadcasting
- D Reserve Bank of India

Q.39. The Central Register shall not record particulars of transactions relating to:

- A Securitisation of financial assets
- B Reconstruction of financial assets
- C Extinguishment of security interest
- D Creation of security interest

Q.40. Who shall be responsible for the control and management of the Central Register:

- A Central Government
- B Central Registrar

- C Any department authorised by the Central Government
- D Reserve Bank of India

Q.41. Who shall be responsible for furnishing information on modification and satisfaction of security interest:

- A Asset Reconstruction Company or secured creditor
- B Only secured creditor
- C Only the asset reconstruction company
- D Borrower or secured creditor

Q.42. Within how many days shall the Central Registrar be intimated regarding satisfaction of security interest:

- A 30 days from the date of such payment or satisfaction
- B 60 days from the date of such payment or satisfaction
- C 120 days from the date of such payment or satisfaction
- D 90 days from the date of such payment or satisfaction

Q.43. If a person contravenes or abates contravention of any provision of this Act or rules, he shall be punishable:

- A With imprisonment for a term which may extend to three years or with fine or both
- B With imprisonment for a term which may extend to two years or with fine or both
- C With imprisonment for a term which may extend to one year or with fine of minimum Rs. 10,000 or both
- D With imprisonment for a term which may extend to one year or with fine or both

Q.44. Which court shall try any offence punishable under this Act:

- A No Court inferior to that of Metropolitan Magistrate or a Judicial Magistrate of Second Class
- B No Court inferior to that of High Court
- C No Court inferior to that of Metropolitan Magistrate or a Judicial Magistrate of First Class

- D** No Court inferior to that of Principal Junior Civil Judge or a Judicial Magistrate of First Class

Q.45. What is the time limit within which appeal against penalties can be made:

- A** 90 days from the date on which such order was passed
- B** 30 days from the date on which such order was passed
- C** 120 days from the date on which such order was passed
- D** 60 days from the date on which such order was passed

ANSWER SHEET

Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act, 2002

<u>Q.</u>	<u>Ans.</u>	<u>Q.</u>	<u>Ans.</u>
1.	D	24.	C
2.	C	25.	A
3.	D	26.	A
4.	A	27.	C
5.	B	28.	D
6.	D	29.	A
7.	C	30.	D
8.	A	31.	A
9.	D	32.	D
10.	D	33.	B
11.	A	34.	A
12.	D	35.	C
13.	C	36.	B
14.	D	37.	A
15.	B	38.	D
16.	D	39.	C
17.	C	40.	B
18.	B	41.	A
19.	B	42.	A
20.	A	43.	D
21.	B	44.	C
22.	D	45.	B
23.	B		