2016-FRR Q&As

Financial Risk and Regulation (FRR) Series

QUESTION 1

Which of the following about the ratios between various Tiers of capital is not a requirement of the Basel Committee?

A. Tier 2 capital cannot exceed 50% of the bank\\'s total regulatory capital.

B. Innovative instruments in Tier 1 are limited to a maximum of 15% of Tier 1 capital.

C. Lower Tier 2 capital may only equal 50% of core capital.

D. Upper Tier 2 capital may only equal 30% of core capital.

Correct Answer: B

QUESTION 2

John owns a bond portfolio worth $2 million with duration of 10. What positions must he take to hedge this portfolio against a small parallel shifts in the term structure.

A. Long position worth $20 million with duration of 10.

B. Long position worth $20 million with duration of 1.

C. Short position worth $2 million with duration of 10.

D. Short position worth $20 million with duration of 1.

Correct Answer: C

QUESTION 3

An options trader is assessing the aggregate risk of her currency options exposures. As an options buyer, she can potentially ___ lose more than the premium originally paid. As an option seller, however, she has a ___ risk on the contract and always receives a premium.

A. Never, unlimited

B. Sometimes, unlimited

C. Never, limited

D. Sometimes, limited

Correct Answer: A

QUESTION 4

Since most consumers of natural gas do not have the ability to store it, they contract with gas suppliers to receive a flow of natural gas equal to a specific number of MMBT\\'s per day (MMBT is millions of British Termal Units, the unit in which gas futures are quoted on the U.S. markets). To protect against price increases with a bank, the natural gas consumer, concerned with the average price over the course of the month, will use the following contracts:

A. American options

B. Asian options

C. Compound options

D. Flexible volume options

Correct Answer: B

QUESTION 5

Which one of the following four factors typically drives the pricing of wholesale products?

A. Marketing considerations

B. Prevailing market price

C. Long-term competitiveness

D. Overall risk exposure

Correct Answer: B