# 2016-FRR Q&As

Financial Risk and Regulation (FRR) Series

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**QUESTION 1**

Which one of the following four option types has two strike prices?

A. Asian options

B. American options

C. Range options

D. Shout options

Correct Answer: D

**QUESTION 2**

Which of the following bank events could stress the bank\\'s liquidity position?

I. Maturing of bank debt

II. Repurchase agreements

III. Futures margins

IV.

Staff turnover

A.

I, II

B.

IV

C.

III, IV

D.

I, II and III

Correct Answer: D

**QUESTION 3**

A credit associate extending a loan to an obligor suspects that the obligor may change his behavior after the loan has been originated. The obligor in this case may use the loan proceeds for purposes not sanctioned by the lender, thereby increasing the risk of default. Hence, the credit associate must estimate the probability of default based on the assumptions about the applicability of the following tendency to this lending situation:

A. Speculation

B. Short bias

C. Moral hazard

D. Adverse selection

Correct Answer: C

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**QUESTION 4**

Which one of the following four statements regarding the current value of a transaction and its purposes is INCORRECT?

A. For cash settled instrument the final market value is used to settle the transaction with the counterparty

B. Profit and loss calculations are made by comparing the current values to the intrinsic values.

C. Margin call by futures exchanges are based on the current market value.

D. Counterparty credit risk calculations are made by analyzing the current values of all deals with the same counterparty.

Correct Answer: B

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**QUESTION 5**

Which one of the following statements regarding collateralized mortgage obligations (CMO) is incorrect?

A. CMOs have senior tranches which are considered short-term, low-risk instruments by banks

B. CMOs are asset-backed securities that have pools of collateralized debt obligations (CDOs) as underlying collateral.

C. CMOs are generally less risky investment than CDOs.

D. CMOs are pools of mortgages that are divided according to the timing of cash flows.

Correct Answer: B