2016-FRR Q&As

Financial Risk and Regulation (FRR) Series

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QUESTION 1

Which statements correctly describe the features of using subscription databases for operational loss data analysis?

Subscription databases

I. Provide central data repositories and benchmarking services to their members.

II. Can provide insight into whether the losses in a firm reflect the usual losses in their industry.

III. Assist with mapping the events to the appropriate business lines, risk categories and causes.

IV.

Reflect only events that are interesting to the press and are reported in the press.

A.

I and II

B.

II and III

C.

I, II and III

D.

II, III, and IV

Correct Answer: B

QUESTION 2

A risk analyst at EtaBank wants to estimate the risk exposure in a leveraged position in Collateralized Debt Obligations. These particular CDOs can be used in a repurchase transaction at a 20% haircut. If the VaR on a $100 unleveraged position is estimated to be $30, what is the VaR for the final, fully leveraged position?

A. $20

B. $50

C. $100

D. $150

Correct Answer: D

QUESTION 3

Why is economic capital across market, credit and operational risks simply added up to arrive at an estimate of aggregate economic capital in practice?

A. Market, credit and operational risks are perfectly correlated which justifies adding up their associated economic capital.

B. In practice, it is very difficult to estimate the correlations between the risk categories and as a result a conservative estimate is obtained by adding up the risks.

C. Regulators require banks to add up economic capital across market, credit and operational risks.

D. Since market, credit and operational risks are significantly different measures of risk, there is no

diversification benefit to computing economic capital to banks across types of risks.

Correct Answer: B

QUESTION 4

Over a long period of time DeltaBank has amassed a large equity option position. Which of the following risks should be considered in this transaction?

I. Counterparty risk on long OTC option positions ICounterparty risk on short OTC option positions

III. Counterparty risk on long exchange-traded option positions

IV.

Counterparty risk on short exchange-traded option positions

A.

I

B.

I, II

C.

II, III

D.

II, III, IV

Correct Answer: A

QUESTION 5

Bank Omega is using futures contracts on a well capitalized exchange to hedge its market risk exposure. Which of the following could be reasons that expose the bank to liquidity risk?

I. The bank may not be able to unwind the futures contracts before expiration.

II. Prices may move such that a loss results on the hedge.

III. Since futures require margins which are settled every day, the bank could find itself scrambling for funds.

IV.

Exchange margin requirements could change unexpectedly.

A.

III, IV

B.

I, III, IV

C.

I, II, III, IV

D.

I, IV

Correct Answer: A