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QUESTION 1

A customer asks a broker employed by AlphaBank to buy Eureka Corporation bonds for her account. While this trade was executed correctly and the bonds were bought, the trade was mistakenly accounted for as a sell order. If the price of Eureka Corporation bonds goes up, this trade would result in a significantly larger loss than if the market had remained stable. However, if the market drops, the customer will benefit from the incorrect accounting and gain from this trade. This trading scenario can serve as an example that

- A. Market risk in this transaction can magnify operational risk.
- B. Credit risk in this transaction can magnify operational risk.
- C. Liquidity risk in this transaction can magnify operational risk.
- D. Strategic risk in this transaction can magnify operational risk.

Correct Answer: A

QUESTION 2

Which one of the following four statements correctly identifies disadvantages of using the economic capital?

- A. The economic capital models used by banks may be subject to significant model risk.
- B. Economic capital may do not take into consideration the regulatory requirements.
- C. Since banks are putting their money at risk they have an incentive to increase economic capital.
- D. Economic capital estimates the level of expected losses.

Correct Answer: A

QUESTION 3

What is the explanation offered by the liquidity preference theory for the upward sloping yield curve shape?

- A. The long term rates must rise enough to get some borrowers to borrow short-term and some lenders to lend long-term.
- B. The long term rates must rise enough to get some borrowers to borrow long-term and some lenders to lend short-term.
- C. The short term rates must rise enough to get some borrowers to borrow short-term and some lenders to lend long-term.
- D. The short term rates must fall enough to get some borrowers to borrow long-term and some lenders to lend short-term.

Correct Answer: A



QUESTION 4

Which of the following statements regarding CDO-squared is correct?

- A. CDO-squared use other CDOs and CMOs as collateral.
- II. Risk assessment of CDO-squared is almost impossible due to their complexity.
- III. CDO-squared have lower credit risk than CMOs but higher than CDOs.
- B. I only
- C. I and II
- D. II and III
- E. I, II, and III

Correct Answer: B

QUESTION 5

Which one of the following four exotic option types has another option as its underlying asset, and as a result of its construction is generally believed to be very difficult to model?

- A. Spread options
- B. Chooser options
- C. Binary options
- D. Compound options

Correct Answer: D

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