2016-FRR Q&As

Financial Risk and Regulation (FRR) Series

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QUESTION 1

An options trader for a large institutional investor takes a long equity option position. Which of the following risks need to be considered when taking this position?

I. All the risks of underlying equities

II. Perceived volatility changes

III. Future dividends yields

IV.

Risk-free interest rates

A.

I, II

B.

II, III

C.

III, IV

D.

I, II, III, IV

Correct Answer: D

QUESTION 2

An asset and liability manager for a large financial institution has to recognize that retail products ___ include embedded options, which are often not rationally exercised, while wholesale products ___ carry penalties for repayment or include rights to terminate wholesale contracts on very different terms than are common in retail products.

A. Frequently; typically

B. Hardly ever; typically

C. Frequently; rarely

D. Hardly ever; rarely

Correct Answer: A

QUESTION 3

Mega Bank has $100 million in deposits on which it pays 3% interest, and $20 million in equity on which it pays no interest. The loan portfolio of $120 million earns an average rate of 10%. If the rates remain the same, what is the net interest income of Mega Bank?

A. $2 million per year

B. $5 million per year

C. $9 million per year

D. $12 million per year

Correct Answer: C

QUESTION 4

Which one of the four following statements describes a specific characteristic of risk and control self-assessments (RCSA) which distinguishes it from both control assessments and risk and control assessments?

A. RCSA is conducted by a third party, perhaps audit, compliance or the Sarbanes-Oxley team.

B. RCSA tests a control\\'s effectiveness against set criteria and issues a pass/fail or level of effectiveness score.

C. RCSA is subjective by nature.

D. RCSA includes a risk assessment in addition to a control assessment.

Correct Answer: C

QUESTION 5

A risk associate responsible for the operational risk function wants to evaluate the upward reporting governance structure and to assess its critical features. Which one of the four attributes does not represent a critical feature of the upward reporting governance structure?

A. Independence

B. Importance

C. Relevance

D. Security

Correct Answer: D

QUESTION 6

In additional to the commodity-specific risks, which of the following risks represent the main commodity derivative risks?

I. Basis

II. Term

III. Correlation

IV.

Seasonality

A.

I, II

B.

II, III

C.

I, IV

D.

I, II, III, IV

Correct Answer: D

QUESTION 7

A large energy company has a recurring foreign currency demands, and seeks to use options with a payoff based on the average price of the underlying asset on either a few specific chosen dates or all dates within a specific pricing window. Which one of the following four option types would most likely meet these specific foreign currency demands?

A. American options

B. European options

C. Asian options

D. Chooser options

Correct Answer: C

QUESTION 8

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 9

Which one of the following four statements regarding bank\\'s exposure to credit and default risk is INCORRECT?

A. The more the bank diversifies its credit portfolio, the better spread its credit risks become.

B. In debt management, the value of any loan exposure will change typically in a fashion similar the same way that an equity investment can.

C. In debt management, the goal is to minimize the effect of any defaults.

D. Default risk cannot be hedged away fully, and it will always exist for the holder of the credit or for the person insuring against the credit or default event.

Correct Answer: B

QUESTION 10

Which of the following measure describes the symmetry of a statistical distribution?

A. Mean

B. Standard deviation

C. Skewness

D. Kurtosis

Correct Answer: C

QUESTION 11

Which of the following statements is a key difference between customer loans and interbank loans?

A. Customers are less credit-worthy than banks on average and hence yields are higher on average for customer loans as compared to interbank loans

B. Customer loans are of shorter duration than interbank loans

C. Customer loans are easier to sell than interbank loans

D. Interbank loans are more customized than commercial loans

Correct Answer: A

QUESTION 12

Which one of the four following statements about technology systems for managing operational risk event data is incorrect?

A. Operational risk event databases are always integrated with the other components of the operational risk management program.

B. Operational risk loss event data collection software can be internally developed.

C. Operational risk event databases are independent elements of the operational risk management framework.

D. The implementation of a new operational risk event loss database has to incorporate an analysis of the advantages and disadvantages of external systems.

Correct Answer: A

QUESTION 13

Which of the following statements regarding collateralized debt obligations (CDOs) is correct?

I. CDOs typically have loans or bonds as underlying collateral.

II. CDOs generally less risky than CMOs.

III.

There is a correlation among defaults in the CDO collateral which should be considered in valuation of these complex instruments.

A.

I only

B.

I and III

C.

II and III

D.

I, II, and III

Correct Answer: B

QUESTION 14

Mega Bank holds a $250 million mortgage loan portfolio, which reprices every 5 years at LIBOR + 10%. The bank also has $150 million in deposits that reprices every month at LIBOR + 3%. What is the amount of Mega Bank\\'s rate sensitive liabilities?

A. $100 million

B. $150 million

C. $200 million

D. $250 million

Correct Answer: B

QUESTION 15

A bank owns a portfolio of bonds whose composition is shown below.

Bond	Value	Modified Duration
3-year floater	$200	0.25
5-year floater	$120	0.25
10-year fixed	$50	8

What is the modified duration of the portfolio?

A. 1.30

B. 8.5

C. 2.30

D. 0.5

Correct Answer: A

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