



# 2016-FRR<sup>Q&As</sup>

Financial Risk and Regulation (FRR) Series

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### QUESTION 1

The operational risk policy should include:

- I. The firm's definition of risk
- II. The governance of operational risk including who owns it, what it owns, and how issues should be escalated
- III.

The main activities and elements that are managed by the operational risk function

- A.
- I, II
- B.
- I, III
- C.
- II, III
- D.
- I, II, III

Correct Answer: D

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### QUESTION 2

Which one of the following four interest rate related yield curves is used to revalue loan and deposit positions in banks?

- A. Derivative
- B. Bond
- C. Cash
- D. Basis

Correct Answer: C

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### QUESTION 3

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
- II. Counterparty 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

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#### QUESTION 4

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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#### QUESTION 5

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

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