2016-FRR^{Q&As}

Financial Risk and Regulation (FRR) Series

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QUESTION 1

Which of the following are among the main uses of risk reports?

I. Identification of exceptional situations that require managerial attention.

II. Display the relative risk among different trades.

III. Specify how RAROC will be maximized within the bank.

IV.

 Estimate the overall risk levels of the bank.

A.

I, II and IV

B.

II and III

C.

II and IV

D.

II, III, and IV

Correct Answer: A

QUESTION 2

By foreign exchange market convention, spot foreign exchange transactions are to be exchanged at the spot date based on the following settlement rule:

A. One-day rule

B. Two-day rule

C. Three-day rule

D. Four-day rule

Correct Answer: B

QUESTION 3

A bank customer expecting to pay its Brazilian supplier BRL 100 million asks Alpha Bank to buy Australian dollars and sell Brazilian reals. Alpha bank does not hold reals so it asks for a quote to buy Brazilian reals in the market. The market

rate is 100. The bank quotes a selling rate of 101 to its customer and sells the real at this quoted price. Then the bank immediately buys the real at the market rate and completes foreign exchange matched transaction. What is the impact of this transaction on the bank\\'s risk profile?

A. This transaction eliminates credit risk.

B. This transaction eliminates counterparty risk.

C. This transaction eliminates market risk.

D. This transaction eliminates operational risk.

Correct Answer: C

QUESTION 4

US-based BetaBank have accumulated Japanese yen, Japanese government bonds, options on Japanese yen, and positions in commodities that have a positive correlation with yen. Which one of the four following non-statistical risk measures could be used to evaluate the BetaBank\\\'s exposure to the Japanese economy?

A. Position turnover

B. Position concentrations

C. Position volatility

D. Position sensitivities

Correct Answer: B

QUESTION 5

A corporate bond was trading with 2%probability of default and 60% loss given default. Due to the credit crisis the probability of default increased to 10% and the loss given default increased to 100%. Assuming that the risk premium remained the same how did the credit spread change?

A. Increased by 1120 basis points

B. Increased by 880 basis points

C. Increased by 1000 basis points

D. Decreased by 880 basis points

Correct Answer: B

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