2016-FRR^{Q&As}

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Financial Risk and Regulation (FRR) Series

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QUESTION 1

Which one of the following four statements presents a challenge of using external loss databases in the operational risk framework?

A. Use of benchmarked data reflects similar data collection standards.

B. External events are usually not of interest to senior management.

C. If the external data is gathered from news sources, it may only reflect events that are interesting to the press.

D. They provide a source of data on what operational loss events will occur.

Correct Answer: C

QUESTION 2

A corporate bond gives a yield of 6%. A same maturity government bond yields 2%. The probability of the corporate bond defaulting is 2.5%. In case of default, investors expect to lose 60% of their investment. The risk premium in the credit spread is:

A. 1.5%

B. 4.5%

C. 2.5%

D. 0.5%

Correct Answer: C

QUESTION 3

Which one of the following four alternatives correctly identifies the purpose of a clearinghouse in trading activities?

A. Reduction of counterparty risk and liquidity risk

B. Reduction of basis risk and mark-to-market risk

C. Reduction of operational risk and credit risk

D. Reduction of market risk and credit risk

Correct Answer: A

QUESTION 4

Which one of the following four variables of the Black-Scholes model is typically NOT known at a point in time?

A. The underlying relevant exchange rates

B. The underlying interest rates

C. The future volatility of the exchange rates

D. The time to maturity

Correct Answer: C

QUESTION 5

Which one of the following market risk measures evaluates the bank\\'s earnings sensitivity?

A. Cash flow stress testing

B. Large exposure risk identification

C. Earnings-at-risk stress testing

D. Value-at-risk back testing

Correct Answer: C

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