[Sep 10, 2024 Prepare For The 2016-FRR Question Papers In Advance [Q30-Q52

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The Global Association of Risk Professionals (GARP) 2016-FRR Certification Exam is a globally recognized certification that validates an individual's knowledge and expertise in financial risk and regulation. 2016-FRR exam covers a wide range of topics, including credit risk, market risk, operational risk, and regulatory compliance. It is designed for professionals who work in risk management or regulatory compliance roles in financial institutions, including banks, insurance companies, and asset management firms.

GARP 2016-FRR (Financial Risk and Regulation) Exam is a certification program designed for professionals who work in the financial industry and deal with risk management and regulatory compliance. 2016-FRR exam is conducted by the Global Association of Risk Professionals (GARP), which is a non-profit organization that aims to enhance the knowledge and expertise of risk management professionals worldwide.

QUESTION 30

Which one of the following changes would typically increase the price of a fixed income instrument, such as a bond?
* Decrease in inflation rates in a country.
* Increase in time to maturity.
* Increase in risk premium.
* Increase in demand for goods and services.
A decrease in inflation rates typically leads to an increase in the price of fixed income instruments like bonds.

Lower inflation increases the real value of the fixed payments received from bonds, making them more attractive to investors and driving up their prices.

QUESTION 31

Jack Richardson wants to compute the 1-month VaR of a portfolio with a market value of USD 10 million,

with an average monthly return of 1% and average monthly standard deviation of 1.5%. What is the portfolio

VaR at 99% confidence level?

Probability Cumulative Normal distribution

0.90 1.282

0.91 1.341

0.92 1.405

0.93 1.476

0.94 1.555

0.95 1.645

0.96 1.751

0.97 1.881

0.98 2.054

0.99 2.326
* 164,500
* 232,600
* 246,750
* 348,900

QUESTION 32

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
* I, II
* I, III
* II, III
* I, II, III

QUESTION 33

SigmaBank has many branches that offer the same products and services. Which one of the four following statement presents an advantage of using RCSA questionnaire approach in the SigmaBank’s operational risk framework?
* The questionnaires are usually sent to specific nominated parties for completion.
* This approach ensures that there has been full participation in the scoring, rather than a single view.
* It provides a forum for an in-depth discussion of the operational risks in the firm.
* The results can be collected electronically and the responses compared to identify themes, trends and areas of potential control weakness or elevated risk.

Using the RCSA questionnaire approach at SigmaBank, which has many branches offering the same products and services, allows for the collection of responses electronically. This facilitates easy comparison of results to identify common themes, trends, and areas of potential control weaknesses or elevated risks across branches.

QUESTION 34

Which one of the following four factors typically drives the pricing of wholesale products?
* Marketing considerations
* Prevailing market price
* Long-term competitiveness
* Overall risk exposure

The pricing of wholesale products is primarily driven by prevailing market prices. Unlike retail products, where marketing and customer retention strategies might influence pricing, wholesale products are priced based on the current market conditions, supply and demand dynamics, and competitive landscape. This ensures that the prices reflect the true market value and risks associated with the products.

QUESTION 35

A credit rating analyst wants to determine the expected duration of the default time for a new three-year loan,

which has a 2% likelihood of defaulting in the first year, a 3% likelihood of defaulting in the second year, and

a 5% likelihood of defaulting the third year. What is the expected duration for this three-year loan?
* 3.7 years
* 2.3 years
* 2.1 years
* 1.5 years

QUESTION 36

Short-selling is typically associated with the following risks:

I. Potential for extreme losses

II. Risk associated with the availability of shares to borrow

III. Market behavior risk

IV. Liquidity risk
* I, II
* I, III
* II, IV
* I, II, III, IV

Short-selling is associated with several risks:

* Potential for extreme losses: If the price of the shorted asset increases significantly, the losses can be unlimited.

* Risk associated with the availability of shares to borrow: Short-sellers need to borrow shares to sell them, and there may be situations where shares are not available.

* Market behavior risk: Market conditions can change rapidly, affecting the prices of shorted assets.

* Liquidity risk: Short-sellers may face difficulty in covering their positions if the market lacks sufficient liquidity.

QUESTION 37

Securitization is the process by which banks

I. Issue bonds where the payment of interest and repayment of principal on the bonds depends on the cash flow

generated by a pool of bank assets.

II. Issue bonds where the bank has transferred its legal right to payment of interest and repayment of principal

to bondholders.

III. Sell illiquid assets.
* I, II
* I
* I, III
* I, II, III

QUESTION 38

Which one of the following four options correctly identifies the core difference between bonds and loans?
* These instruments receive a different legal treatment.
* These instruments have different pricing drivers.
* These instruments cannot be used to estimate credit capital under provisions of the Basel II Accord.
* These instruments are subject to different credit counterparty regulations.

QUESTION 39

A bank customer chooses a mortgage with low initial payments and payments that increase over time because the customer knows that she will have trouble making payments in the early years of the loan. The bank makes this type of mortgage with the same default assumptions uses for ordinary mortgages, thus underestimating the risk of default and becoming exposed to:

* Moral hazard
* Adverse selection
* Banking speculation
* Sampling bias

QUESTION 40

A financial analyst is trying to distinguish credit risk from market risk. A $100 loan collateralized with $200 in stock has limited ___, but an uncollateralized obligation issued by a large bank to pay an amount linked to the long-term performance of the Nikkei 225 Index that measures the performance of the leading Japanese stocks on the Tokyo Stock Exchange likely has more ___ than ___.

* Legal risk; market risk; credit risk
* Market risk; market risk; credit risk
* Market risk; credit risk; market risk
* Credit risk, legal risk; market risk

QUESTION 41

Operational risk team for a large international bank is implementing business continuity planning (BCP). Which of the following BCP activities fall within the definition of operational risk and represent Basel II Accord’s operational risk categories:

I. Damage to Physical Assets

II. Business Disruption and System Failures

III. Social Distancing Requirements

IV. Potential for Extreme Losses

* I and II
* III
* I and IV
* III and IV

QUESTION 42

The data available to estimate the statistical distribution of bank losses is difficult to assemble for which of the following reasons?

I. The needed data is vast in quantity.

II. The data requires bringing together significantly different measures of risk.

III. Some risks are difficult to quantify and hence the data might involve subjective elements.
* I, II
* I, III
* II, III
* I, II, III

Estimating the statistical distribution of bank losses is challenging due to several factors:

* I. The needed data is vast in quantity: Gathering comprehensive data covering all potential risk factors and historical loss events is extensive.

* II. The data requires bringing together significantly different measures of risk: Banks face multiple types of risks (e.g., credit, market, operational) which need to be integrated into a single cohesive loss distribution model.

* III. Some risks are difficult to quantify and hence the data might involve subjective elements:

Certain risks, particularly operational and reputational risks, are inherently difficult to measure and may require judgment and subjective assessment.

All these factors make assembling the necessary data for accurate loss distribution estimation complex.

References: How Finance Works, discussions on risk measurement and data challenges in banking.

QUESTION 43

Which of the following statements about the interest rates and option prices is correct?
* If rho is positive, rising interest rates increase option prices.
* If rho is positive, rising interest rates decrease option prices.
* As interest rates rise, all options will rise in value.
* As interest rates fall, all options will rise in value.

Rho is a measure of the sensitivity of an option’s price to changes in interest rates. If rho is positive, it means that the price of the option will increase when interest rates rise. This is because higher interest rates generally increase the cost of carry, which can make holding the underlying asset more expensive and thus increase the value of the option.

QUESTION 44

Returns on two assets show very strong positive linear relationship. Their correlation should be closest to which of the following choices?
* 15%
* 45%
* 60%
* 100%

A very strong positive linear relationship between the returns on two assets means that their correlation is close to 1, which is 100%. This indicates that the returns on the two assets move almost perfectly in tandem with each other.

QUESTION 45

Rising TED spread is typically a sign of increase in what type of risk among large banks?

I. Credit risk

II. Market risk

III. Liquidity risk

IV. Operational risk
* I only
* II only
* I and IV
* I, II, and III

QUESTION 46

Operational risk team for a large international bank is implementing business continuity planning (BCP).

Which of the following BCP activities fall within the definition of operational risk and represent Basel II Accord’s operational risk categories:

I. Damage to Physical Assets

II. Business Disruption and System Failures

III. Social Distancing Requirements

IV. Potential for Extreme Losses
* I and II
* III
* I and IV
* III and IV

According to Basel II Accord’s operational risk categories, Business Continuity Planning (BCP) activities that fall within operational risk include:

* Damage to Physical Assets: This covers risks related to the physical destruction or damage to bank assets.

* Business Disruption and System Failures: This includes risks associated with operational disruptions and failures in systems that support business activities.

QUESTION 47

The risk management department of VegaBank wants to set guidelines on commodity carry trades. Which of

the following strategies should she pursue to achieve a profitable commodity carry?

I. Buy short-term commodity futures and sell longer-dated position when the curve is in contango.

II. Buy short-term commodity futures and sell longer-dated position when the curve is in backwardation.

III. Buy long-term commodity futures and sell shorter-dated positions when the curve is in contango.

IV. Buy long-term commodity futures and sell shorter-dated positions when the curve is in backwardation.
* I, II
* I, III
* II, IV
* I, IV

QUESTION 48

Which one of the following four statements represents the advantages of the historical sim-ulation method when calculating VaR?
* Solve the problem caused by incorrectly assuming that asset returns are normally distributed.
* Rely on current market data to describe the distribution of returns and determine volatilities.
* Are believed to be superior in accuracy predicting future levels of realized volatility.
* Are only using loss probabilities that can be found in tables of the standard normal distribution.
The historical simulation method does not assume a normal distribution of asset returns. Instead, it uses actual historical returns to simulate future returns, thereby addressing the problem of incorrect assumptions about the normal distribution of asset returns. This approach can better capture the empirical distribution of returns, including skewness and kurtosis.

QUESTION 49

Which of the following statements are reasons for mathematical valuation and risk assessment models to be misleading or inaccurate?

I. There could be missing factors in models.

II. The data used as input for the model could be bad or wrong.

III. Model results could be misinterpreted.

IV. There could be errors in the derivation of the model.
* I, II, III IV
* III and IV
* I, II, and III
* I, III, and IV
Mathematical valuation and risk assessment models can be misleading or inaccurate for several reasons:

* Missing factors in models: Important variables or conditions might be overlooked.

* Bad or wrong data: Incorrect or poor-quality data input can lead to faulty outcomes.

* Misinterpretation of results: Users might not correctly understand or use the results.

* Errors in the derivation of the model: Mistakes in the mathematical formulation or assumptions can lead to errors.

All these factors contribute to the potential inaccuracy or misleading nature of such models.

QUESTION 50

For a bank a 1-year VaR of USD 10 million at 95% confidence level means that:
* There is a 5% chance that the bank would lose less than USD 10 million in a year.
* There is a 5% chance that the bank would lose more than USD 10 million in a year.
* There is a 5% chance that the worst loss would be USD 10 million in a year.
* There is a 5% chance that the least loss would be USD 10 million in a year.

Value at Risk (VaR) at a 95% confidence level means that there is a 95% chance that the bank’s losses will not exceed USD 10 million in a year. Conversely, this implies that there is a 5% chance that the bank’s losses will exceed USD 10 million in a year.

QUESTION 51

Which of the following statements is a key difference between customer loans and interbank loans?
* Customers are less credit-worthy than banks on average and hence yields are higher on average for

customer loans as compared to interbank loans
* Customer loans are of shorter duration than interbank loans
* Customer loans are easier to sell than interbank loans
* Interbank loans are more customized than commercial loans

QUESTION 52

Which one of the following four mathematical option pricing models is used most widely for pricing European

options?
* The Black model
* The Black-Scholes model
* The Garman-Kohlhagen model
* The Heston model