2016-FRR Q&As

Financial Risk and Regulation (FRR) Series

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QUESTION 1

AlphaBank\\'s management is evaluating how changes in its business environment could materially impact risk categories. As a result, bank\\'s management decides to implement the structure, which facilitates the discussion in an integrative context, spanning market, credit, and operational risk factors, and encourages transparency and communication between risk disciplines. Which one of the following four approaches should the management choose to achieve this strategic goal?

A. Regulatory risk management approach

B. Enterprise risk management approach

C. Scenario-based risk management approach

D. Taxonomy-based risk management approach

Correct Answer: B

QUESTION 2

Which one of the following four statements about preferred shares is INCORRECT?

A. Preferred shares refer to a class of securities that is a cross between equity and debt.

B. Preferred shares represent residual of a corporation after its other liabilities have been paid.

C. Preferred shares are subordinated to debt.

D. Preferred shares can be perpetual or have maturities far exceeding debt maturities.

Correct Answer: B

QUESTION 3

From the bank\\'s point of view, repricing the retail debt portfolio will introduce risks of fluctuations in:

I. Duration

II. Loss given default

III. Interest rates

IV.

Bank spreads

A.

I

B.

II

C.

I, II

D.

III, IV

Correct Answer: D

QUESTION 4

Bank Alpha is making a decision about lending 10-year loans in a sector that is fairly illiquid and is looking at various options to fund the loans. Which of the following options to fund the loans exhibits the most exogenous liquidity risk?

A. Overnight interbank markets

B. The 6-month LIBOR markets

C. The 1-year treasury markets

D. Foreign exchange markets

Correct Answer: A

QUESTION 5

Altman\\'s Z-score incorporates all the following variables that are predictive of bankruptcy EXCEPT:

A. Return on total assets

B. Sales to total assets

C. Equity to debt

D. Return on equity

Correct Answer: D