

Quiz: Background – The Hedge Fund Fraud Landscape

Section 02 – Digital-AI-Finance

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Question 1: Fraud Categories

How many fraud categories are in the taxonomy?

- a) 3
- b) 4
- c) 5
- d) 7

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Answer

c) 5

The taxonomy organizes hedge fund fraud into five categories: performance fabrication, allocation fraud, strategy misrepresentation, market manipulation, and regulatory fraud.

Source: Section 2.1

Question 2: Detection Difficulty

Which fraud type has the highest detection difficulty?

- a) Performance Fabrication
- b) Allocation Fraud
- c) Market Manipulation
- d) Regulatory Fraud

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Answer

c) Market Manipulation

Market manipulation has a detection difficulty rating of 5/5, the highest among all fraud types, as it requires privileged real-time data and advanced methods to detect.

Source: Section 2.1

Question 3: Survivorship Bias

What is the estimated survivorship bias in hedge fund databases?

- a) 42 basis points/year
- b) 142 basis points/year
- c) 242 basis points/year
- d) 442 basis points/year

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- a) 42 basis points/year
- b) 142 basis points/year
- c) 242 basis points/year
- d) 442 basis points/year

Answer

c) 242 basis points/year

Survivorship bias, estimated at approximately 242 basis points per year, arises because defunct funds exit live databases, resulting in return overstatement.

Source: Section 2.2

Question 4: Backfill Bias

What is the estimated backfill bias?

- a) 142bp/year
- b) 242bp/year
- c) 342bp/year
- d) 442bp/year

Question 4: Backfill Bias

What is the estimated backfill bias?

- a) 142bp/year
- b) 242bp/year
- c) 342bp/year
- d) 442bp/year

Answer

d) 442bp/year

Backfill bias, estimated at 442 basis points per year, results from the retroactive inclusion of favorable pre-reporting return histories when funds begin reporting to databases.

Source: Section 2.2

Question 5: Regulatory Changes

Which regulatory change followed the 2008 financial crisis in the US?

- a) Sarbanes-Oxley
- b) Dodd-Frank Title IV
- c) Glass-Steagall
- d) Basel III

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Answer

b) Dodd-Frank Title IV

The Dodd-Frank Act's Title IV, passed in 2010, mandated that hedge fund advisers register with the SEC and file Form ADV, substantially improving transparency and entity resolution capabilities.

Source: Section 2.3

Question 6: EU AI Act Classification

Under the EU AI Act, how is fraud detection classified?

- a) Low-risk
- b) Limited-risk
- c) High-risk
- d) Unacceptable risk

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Answer

c) High-risk

Financial fraud detection systems fall under the EU AI Act's high-risk classification (Annex III), subjecting them to stringent transparency, human oversight, and risk management requirements.

Source: Section 2.3

Question 7: Data Ecosystem Layers

How many layers does the data ecosystem have?

- a) 2
- b) 3
- c) 4
- d) 5

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- d) 5

Answer

c) 4

The hedge fund data ecosystem spans four layers: return data from commercial databases, regulatory filings, alternative data from news and social media, and synthetic data generated for class imbalance.

Source: Section 2.2

Question 8: SupTech Meaning

What does SupTech stand for?

- a) Superior Technology
- b) Supervisory Technology
- c) Supplementary Technology
- d) Supply Technology

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- c) Supplementary Technology
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Answer

b) Supervisory Technology

SupTech (Supervisory Technology) refers to the use of technology by regulatory authorities to enhance their supervisory capabilities, including AI-based fraud detection systems.

Source: Section 2.3