Topic 1 - 5

Test ID: 8450890

Question #1 of 25

Question ID: 438572

Value at risk (VaR) is the:

A) average loss exceeding a specified threshold.

B) maximum expected loss for a given confidence level.

C) the worst possible loss for an asset.

D) minimum expected loss for a given confidence level.

Question #2 of 25

Question ID: 438568

The risk of sustaining significant losses due to the inability to take or exit a position at a fair price is most likely:

A) credit event risk.

B) operational risk.

C) liquidity risk.

D) market risk.

Question #3 of 25

Question ID: 495061

When adhering to best practices in corporate governance, the board of directors should most likely:

I. watch out for the interests of the debtholders.

II. maintain its independence from management.

A) II only.

B) I only.

C) Both I and II.

D) Neither I nor II.

Question #4 of 25

Question ID: 438566

The risk that a counterparty will fail to deliver its obligation is:

A) settlement risk.

B) model risk.

C) delivery risk.

D) people risk.

Question #5 of 25

Question ID: 495065

Regarding the interdependence of risk management related functional units within a firm, which of the following list of activities are most likely associated with senior management?

A) Books and settles trades, reconciles front- and back-office positions, and prepares and decomposes daily P&L.

B) Develops valuation and finance policy, ensures integrity of P&L, and manages business planning process.

C) Establishes and manages risk exposure, ensures timely, accurate, and complete deal capture, and signs off on official P&L.

D) Approves business plans and targets, sets risk tolerance, and ensures performance.

Question #6 of 25

Question ID: 495068

The chief risk officer (CRO) is responsible for all risks facing a company, and is specifically responsible for developing and implementing an enterprise risk management (ERM) strategy. Which of the following statements is correct regarding the role and responsibilities of the CRO?

A) The CRO develops a framework of management policies, including setting the overall risk appetite of the firm.

B) The CRO is a mid-level management responsible for assisting with ERM.

C) The CRO typically reports to the heads of credit, market, operational, and insurance risks.

D) The creation of the CRO role is the only solution to establishing risk oversight.

Question #7 of 25

Question ID: 495071

A risk appetite framework (RAF) may be used to help a firm manage risk and implement proper corporate governance. Which of the following statements correctly reflects a firm's risk appetite? Risk appetite:

A) must exceed a firm's risk capacity, which is the minimum amount of risk the firm should take.

B) together with the firm's RAF should be viewed as a set of standalone rules or tasks.

C) is the amount and type of risk that a firm is able and willing to accept in pursuit of its business objectives.

D) is a system of values and behaviors present in employees throughout the firm.

Question #8 of 25

Question ID: 495069

The chief risk officer (CRO) generally reports to the CEO but could also have a dotted line relationship to both the CEO and to the board of directors in order to minimize any potential friction between the CRO and the CEO due to:

I. basis risk hedging.

II. regulatory issues.

A) Neither I nor II.

B) I only.

C) II only.

D) Both I and II.

Question #9 of 25

Question ID: 495075

Which of the following statements correctly identifies a challenge associated with firm-wide risk aggregation?

I. Separate business units will set their risk appetite parameters, but there is no set method for the firm to use in determining whether the sum of those parameters is acceptable for the firm's total risk appetite.
II. When assuming that the quantitative measures of risk are reliable and accurate, there is still the problem with properly measuring the less quantifiable risks.

A) Both I and II.

B) Neither I nor II.

C) I only.

D) II only.

Question #10 of 25

Question ID: 495064

Stella Webster, FRM, is assessing the role and responsibilities of her firm's audit committee. Which of the following statements is incorrect regarding the audit committee? The audit committee (as part of the board):

A) discusses and approves the remuneration of key management personnel.

B) monitors the underlying systems in place regarding financial reporting, regulatory compliance, internal controls, and risk management.

C) has traditionally been responsible for the accuracy of the firm's financial statements and its regulatory reporting requirements.

D) must ensure that the firm has taken all steps to avoid the risk that the financial statements are materially misstated as a result of undiscovered errors and/or fraud.

Question #11 of 25

Question ID: 495058

Taylor Lawson is giving a presentation on the differences between static and dynamic hedging strategies. Which of the following statements is correct regarding these two hedging strategies?

A) A static hedging strategy is a complex process in which the risky investment position is initially determined and an appropriate hedging vehicle is used to match that position as close as possible and for as long as required.

B) Significantly more time and monitoring efforts are required with a dynamic hedging strategy compared to a static hedging strategy.

C) A static hedging strategy recognizes that the attributes of the underlying risky position may change with time.

D) A dynamic hedging strategy is a more simple process than a static hedging strategy.

Question #12 of 25

Question ID: 495057

The board of directors should help a company determine whether to hedge specific risk factors. Regarding the role of the board, which of the following statements is incorrect?

A) The board must ensure that its goals are stated in a clear and actionable manner.

B) The board needs to help set and communicate the firm's risk appetite in a quantitative and/or qualitative manner.

C) The board should ignore time horizon when determining its risk management goals for management to achieve.

D) The board should clarify its objectives in terms of whether it is accounting or economic profits that are to be hedged.

Question #13 of 25

Question ID: 495062

Which of the following actions correctly reflect a specific duty of the risk advisory director? The risk advisory director should review and analyze:

A) risk management practices of competitors, but not risk management practices of the industry.

B) any audit reports from internal audits, but not from external audits.

C) the firm's risk appetite and its impact on business strategy.

D) the firm's financial statements, but not the firm's disclosures.

Question #14 of 25

Question ID: 495067

Regarding the primary motivations for a firm to implement an enterprise risk management (ERM) initiative, which of the following motivations are most likely associated with the benefit of improved business performance?

A) Integration of business processes.

B) Integration of portfolio management.

C) Integration of risk organization.

D) Integration of risk transfer.

Question #15 of 25

Question ID: 495059

When evaluating methods to hedge operational and financial risks, including pricing, foreign currency, and interest rate risk, which of the following risks primarily pertain to the income statement?

I. Hedging operational risk
II. Hedging financial position risk

A) Neither I nor II.

B) I only.

C) II only.

D) Both I and II.

Question #16 of 25

Question ID: 492007

Unexpected volatility in an asset is often called:

A) risk.

B) an upward earnings surprise.

C) biased expectations.

D) asset price instability.

Question #17 of 25

Question ID: 495074

Regarding current best practices for the implementation and communication of a risk appetite framework (RAF), which of the following statements is correct?

I. An effective RAF stops after the setting of risk limits.
II. Business unit managers should be responsible for managing risks across all business units.

A) I only.

B) II only.

C) Both I and II.

D) Neither I nor II.

Question #18 of 25

Question ID: 495070

Steven Marsh is assisting with the implementation of an enterprise risk management (ERM) program for his firm. Specifically, he is analyzing the main components of a strong ERM framework. Which of the following activities is closely associated with the ERM component of portfolio management?

A) Quantifies risk exposures for use in risk analysis, measurement, and reporting.

B) Communicates a firm's internal risk management process to external stakeholders, including shareholders, creditors, regulators, and the public.

C) Reduces or transfers out risks that are either undesirable risks or are desirable but considered concentrated.

D) Provide a holistic view of the firm's risks if these risks are viewed as individual components of the aggregate risks facing the firm.

Question #19 of 25

Question ID: 495056

Abe Osbourne is a risk analyst who is evaluating the advantages and disadvantages of hedging risk exposures. Which of the following statements does not reflect an advantage of hedging?

A) Hedging may allow management to control its financial performance to meet the requirements of the board of directors.

B) Hedging may result in operational improvements within a firm.

C) Hedging through the use of derivatives instruments such as swaps and options may be cheaper than purchasing an insurance policy.

D) Hedging may decrease the variability of the firm's earnings due to the difference between accounting earnings and cash flows.

Question #20 of 25

Question ID: 495066

Bank XYZ's senior management and its board of directors currently receive fragmented risk management information from various functional units. Given the shortcomings of this approach, the chief risk officer (CRO) suggests a more centralized risk management system. Which of the following statements is correct regarding the implementation of an enterprise risk management (ERM) program?

I. ERM is crucial in establishing a firm-wide, integrated set of policies, procedures, and standards.
II. ERM is often defined as a process or activity to manage risks.

A) I only.

B) Neither I nor II.

C) II only.

D) Both I and II.

Question #21 of 25

Question ID: 495073

Donald Turner, FRM, is reviewing the key challenges of implementing a risk appetite framework (RAF). Which of the following challenges relates specifically to training a broader range of employees on the details of the RAF and how it is beneficial in order to achieve employee acceptance?

A) The common view that risk appetite is mainly about setting limits.

B) Properly transmitting the RAF within the firm together with incorporating the RAF into making day-to-day operating decisions.

C) The role of stress testing in the RAF.

D) The lack of connection between risk appetite and the strategic and business planning processes.

Question #22 of 25

Question ID: 438569

Funding liquidity risk refers to the risk:

A) that the government will decide to terminate a government-funded program.

B) that an institution will not be able to raise cash necessary to make debt payments.

C) that a counterparty to a financial transaction will default.

D) resulting from a large position size in an asset relative to the asset's typical trading lot size.

Question #23 of 25

Question ID: 495060

Management at Bank ABC is attempting to determine which types of instruments to use for risk management. When comparing exchange-traded instruments to over-the-counter (OTC) instruments, which characteristic should the bank associate with exchange-traded instruments? Exchange-traded instruments:

A) can be customized to suit the firm's risk management needs.

B) contain credit risk by either of the counterparties in the transaction (e.g., default risk).

C) are privately traded between a bank and a firm.

D) cover only certain underlying assets and are standardized.

Question #24 of 25

Question ID: 495072

Regarding the relationship between a firm's risk appetite and its risk culture, which of the following statements is most likely incorrect?

A) There is a clear connection between a firm's risk culture and its risk appetite.

B) Qualitative measures are needed to develop a risk culture, because they are easier to measure than quantitative metrics.

C) Risk culture directly impacts analysis of information pertaining to risk and ultimately impacts decisions about which risks the firm will take.

D) A strong risk culture makes it easier to set a risk appetite framework (RAF).

Question #25 of 25

Question ID: 495063

Regarding the relationship between a firm's risk appetite and its business strategy, which of the following statements is true?

A) A firm's risk appetite reflects its ability to minimize risk.

B) Business planning activities that exceed risk appetite should be maintained.

C) Business strategy planning meetings require input from the risk management team.

D) Consideration must be given to the downside risks of only risky business strategies.