Topic 6 - Financial Disasters

Test ID: 8291804

Question #1 of 15

Question ID: 438685

All of the following affect the role of operational risk management in preventing large trading losses except:

A) marked-to-market losses.

B) multiple approvals for large trades by senior management.

C) the degree of supervision and oversight.

D) the breadth of responsibilities and power given to traders.

Question #2 of 15

Question ID: 438690

The head of the government bond trading desk at Kidder Peabody, Joseph Jett, misreported trades, which allowed him to report substantial profits. Which of the following statements is incorrect regarding the Kidder Peabody case?

A) This case demonstrated the importance of investigating large profits from unknown trading strategies.

B) The series of events resulted in $350 million in realized losses for Kidder Peabody.

C) Jett's profits came under fire after Kidder Peabody realized that no individual trading strategy could produce the substantial profits that were being reported.

D) The trades triggered a loss of confidence in the management of Kidder Peabody.

Question #3 of 15

Question ID: 438689

The high degree of operational risk in the Sumitomo case was illustrated by which of the following?
I. Model risk.
II. High degree of autonomy, allowing the trader to execute highly levered positions.

A) II only.

B) I only.

C) Both I and II.

D) Neither I nor II.

Question #4 of 15

Question ID: 438678

Banker's Trust used derivative trades, which promised corporate clients a high-probability, small reduction in funding costs in exchange for a low-probability, large loss. Unfortunately, the derivative trades only resulted in significant losses for its clients. This case demonstrated the importance of:

A) incorporating liquidity risk into risk models.

B) developing more accurate methods for computing collateral when borrowing bonds.

C) investigating large profits from unknown trading strategies.

D) matching trades with a client's needs and providing price quotes that are independent from the front office.

Question #5 of 15

Question ID: 438682

Metallgesellschaft could have addressed the cash flow crisis created by their stack-and-roll hedge strategy by:
I. Selling puts.
II. Requiring periodic cash settlements from customers.

A) I only.

B) Neither I nor II.

C) II only.

D) Both I and II.

Question #6 of 15

Question ID: 438688

Which of the following choices is an example of operational risk in the collapse of Barings?

A) Much of a company's assets were in illiquid derivative products.

B) The default of Japanese industrial firms.

C) Failure to supervise the actions of its trader.

D) The Nikkei collapsed due to an earthquake.

Question #7 of 15

Question ID: 438683

Nicholas Leeson is identified with which of the following?

A) Commodity Futures Trading Commission.

B) Sumitomo.

C) Metallgesellschaft AG.

D) Nikkei stock index futures.

Question #8 of 15

Question ID: 438687

Information systems at Barings Bank were deficient for all of the following reasons except:

A) technological limitations that hindered accurate financial reporting.

B) management's failure to audit reporting quality.

C) incomplete account information on gains and losses.

D) management's inability to detect the inconsistency of Leeson's trading strategy and profits.

Question #9 of 15

Question ID: 438686

All of the following are reasons that Nick Leeson engaged in aggressive speculative trading in the Barings Bank collapse except:

A) Barings' lack of risk management oversight.

B) he was attempting to recover previous trading losses.

C) Barings' risk management models were flawed.

D) his authority over settlement operations allowed him to hide trading losses.

Question #10 of 15

Question ID: 438684

The high degree of operational risk in the Sumitomo case was illustrated by which of the following?

I. Lack of informed supervisors to approve large trades.

II. The trader's ability to keep two sets of trading books and hide trading losses.

A) Neither I nor II.

B) Both I and II.

C) II only.

D) I only.

Question #11 of 15

Question ID: 438691

In general, the bankruptcy of Barings Bank might have been avoided with:

A) a more moderate use of leverage.

B) maturity matching between the hedging instrument and the asset being hedged.

C) pricing models less vulnerable to model risk.

D) stronger reporting and control systems.

Question #12 of 15

Question ID: 438676

Which of the following are examples of model risk illustrated in the Long-Term Capital Management (LTCM) case?

I. Poor management oversight.

II. Financial reporting standards.

A) II only.

B) I only.

C) Both I and II.

D) Neither I nor II.

Question #13 of 15

Question ID: 438679

Between 1997 and 2002, a currency trader for Allied Irish Bank (AIB), John Rusnak, hid $691 million in losses from management. Rusnak used a number of deceptive means to hide these losses including:

I. bullying back-office workers into not following-up on trade confirmations for imaginary trades.
II. reporting substantial fake gains from small currency arbitrage positions.

A) II only.

B) Neither I nor II.

C) I only.

D) Both I and II.

Question #14 of 15

Question ID: 438681

Metallgesellschaft's mismanagement in its long-term fixed contract strategy was evidenced by which of the following?
I. Refunding payments to customers who willingly paid to cancel their long-term obligations.
II. Canceling the program too soon while the positive legs of the contracts could have been sold at a profit or used to secure additional financing.

A) Neither I nor II.

B) Both I and II.

C) I only.

D) II only.

Question #15 of 15

Question ID: 438677

Which of the following factors contributed to the collapse of Barings Bank?

A) Japanese financial reporting requirements.

B) A trader having authority in the settlement process.

C) Basis risk.

D) A maturity mismatch between the hedging instrument and the risk being hedged.