FRM Part II Exam

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Questions - Current Issues in Financial Markets

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Reading 153: Beyond LIBOR: A Primer on the New Benchmark Rates

Q.4719 Which one of the following statements is **NOT TRUE** about LIBOR?

A. LIBOR depends on market and transaction data-based judgements instead of actual transactions

B. LIBOR comes in five different and its maturity ranges from overnight to twelve months

C. LIBOR is a risk-free rate

D. LIBOR is used as a gauge of market expectation for interest rates finalized by central banks

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Q.4720 What is the problem with LIBOR?

A. Regulatory bodies are concerned about the scarcity of underlying transactions

B. The market for wholesale term lending to banks is not sufficiently active

C. The methodology for calculating LIBOR is outdated

D. All of the above.

Q.4721 Which of the following is **TRUE** about LIBOR and Secured Overnight Financing Rate (*SOFR*)?

A. SOFR reflects short-term borrowing costs while LIBOR reflects long-term borrowing costs

B. SOFR relies partially on market-data “expert judgment” while LIBOR relies on actual transaction data

C. SOFR is entirely a daily rate while LIBOR has seven varying rates on terms of one day to one year

D. SOFR incorporates a built-in credit-risk component while LIBOR represents a riskless rate of interest

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Q.4722 Benchmark rates are used by both private and public entities across the economy. Which one of the following statements presents the benefits of using benchmark rates?

A. Benchmark rates are used in complex transactions such as the issuance of securities with variable rates, options, and swaps

B. Benchmark rates are used in computations of overdraft penalties in cash accounts, interest on retail deposits, and the agreements of interest on retail mortgages and loans

C. Benchmark rates are useful to banks when lending to individuals or many clients

D. All the above

Q.4723 Since the global financial crisis, some weaknesses of using the LIBOR rates have been exposed. Which one of the following statements is **NOT** a reason why LIBOR rates are undergoing reforms?

A. They introduce human error by basing on hypothetical data

B. They represent unsecured lending

C. They can be explained as a sign of creditworthiness of a particular bank

D. The emergence of riskless overnight rates.

Q.4724 Which of the following statements is **TRUE** about a risk-free rate? It is the:

A. A risk-free rate is the maximum return an investor expects for any investment overnight

B. A risk-free rate is the rate of return of an investment with virtually zero risks

C. All of the above

D. None of the above

Q.4725 The use of risk-free rates presents several demerits to investments. Which one of the following is a setback to the implementation of risk-free rates in the repo market?

A. The effects of inflation

B. There are little or no risks on the investments

C. The risk-free rate serves as a foundation for all other types of investments

D. A risk-free rate is an input for computing financial components

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Q.4726 Ideal benchmarks are the ones that provide standard excellence to preset objectives. Which one of the following is **TRUE** about the features of a perfect benchmark rate?

A. It must offer a credible representation of interest rates in the center of money markets

B. It must provide a benchmark rate for finance-related executions

C. It must serve as a benchmark in loans and interest rate derivative contracts

D. All of the above

Q.4727 There is a tremendous shift anticipated across financial markets soon. The impact of the transition from LIBOR is deemed to be far-reaching for individual businesses, financial services, and customers. Which of the following makes this transition different?

A. LIBOR is deep-rooted

B. The lack of regulatory control

C. The need for strategic decision-making against a background of uncertainty

D. All of the above

Q.4728 The LIBOR will be replaced by new risk-free rates. Which of the following is **NOT** a desirable quality of the new rates?

A. They must be less risky

B. They must be less exposed to inflation

C. They must be able to move beyond interbank markets

D. In some jurisdictions, they should draw on secured rather than unsecured transactions.

Reading 154: Machine Learning: A Revolution in Risk Management and Compliance?

Q.4495 How does the ability of machine learning methods to analyze very large amounts of data influence the analytical capabilities of risk management and compliance?

A. It significantly improves upon those capabilities

B. It impairs those capabilities

C. It does not influence those capabilities

D. It aids those capabilities, but not to a significant degree

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Q.4496 What characteristics do the ability of machine learning methods to analyze very large amounts of data exhibit in the context of predictive analysis?

A. A possibility of performing an extensive analysis and outputting a single value (e.g. "true" or "false")

B. A data output which requires a significant amount of manual correction to be useful

C. It gives a general idea of the factors involved in predictive analysis

D. It allows for high granularity and depth of the predictive analysis being performed

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Q.4497 One of the main areas of risk management and compliance influenced by the ability of machine learning methods to analyze very large amounts of data is credit risk modeling. Name another important area of risk management and compliance which it influences.

A. Insurance management

B. Money laundering detection

C. Corporate governance

D. Tax evasion

Q.4498 How dependent on the particular circumstances (i.e., context) are machine learning approaches within the financial services sector?

A. Not dependent at all

B. Dependent to a smaller degree

C. Dependent to a significant degree

D. Highly dependent

Q.4499 Regarding input data in machine learning approaches in the financial sector, what are the main two issues which can arise during these approaches?

A. Quantity and responsiveness of data sources

B. Quality and level of maintenance of the computer network

C. Quality and availability of data sources

D. Percentage of uptime (i.e., proper functioning) of the computer network

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Q.4500 What are the two main reasons for increased model complexity in machine learning approaches in the financial sector?

A. Data quality and availability

B. Expected predictive performance and granularity of analysis

C. Human errors and manual data inputs

D. Functionality of the computer network and hardware

Q.4501 In which of the following contexts does increased model complexity and a lack of explanatory insight pose an important issue?

A. Regulatory context

B. Testing context

C. Maintenance context

D. All of the above

Q.4502 Financial institutions do not receive feedback from law enforcement agencies on which of their reported suspicious activities were money laundering. This, therefore, makes it challenging to train machine learning-detection algorithms using historical data. Which one of the following machine learning approaches may be used in this scenario?

A. Supervised

B. Unsupervised

C. Both supervised and unsupervised

D. None since the dependent variables are missing

Q.4503 The machine learning spectrum contains several analytical methods. The applicability of the various machine learning approaches depends on the types of statistical problems to be addressed. Which of the following classes of statistical problems employs the use of the unsupervised machine learning approach?

A. Regression

B. Classification

C. Clustering

D. All of the above

Q.4504 Machine learning can be applied in the surveillance of conduct breaches by traders working for the financial institutions. It should be auditable for both supervisors and compliance officers. Therefore, it should be clear to a compliance officer as to why specific behavior has set off an alert. However, this may be difficult for systems based entirely on machine learning due to their "black box" character of learning approaches. Which of the following methods can be used to address the challenge?

A. Clustering

B. Human decisions and behavioral traits

C. Unsupervised machine learning approach

D. None of the above

Reading 155: Artificial Intelligence and Machine Learning in Financial Services

Q.4505 Which of the following is **not** a subset of big data anaytics?

A. Unsupervised learning

B. Reinforcement learning

C. Supervised learning

D. None of the above

Q.4506 Which of the following statements is incorrect?

A. ‘Unsupervised learning’ refers to situations where the data provided to the algorithm does not contain labels

B. In ‘supervised learning,’ the algorithm is fed a set of ‘training’ data that contains labels on some portion of the observations

C. Reinforcement learning’ can be used in robotics, game theory, and self-driving cars.

D. None of the above

Q.4507 A variety of factors that have contributed to the growing use of FinTech generally have also spurred the adoption of AI and machine learning in financial services. Which of the following is **not** one of these factors?

A. Lower hardware costs

B. Better access to computing power via cloud services

C. The rising cost of data storage

D. The rapid adoption of web-based services

Q.4508 Financial institutions have incentives to use AI and machine learning for business needs. However, there is a difference between supply and demand factors for the financial adoption of AI and machine learning. Which of the following is a supply factor?

A. Potential for cost reduction, revenue gains, improved risk management

B. Prudential regulations, data reporting, best execution, AML, etc.

C. “Arms race” with other financial institutions and firms

D. Availability of infrastructure and data to apply new techniques

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Q.4509 Which of the following statements is **incorrect** concerning machine learning-based trading?

A. Advanced optimization techniques and predictable patterns in the behavior of automated trading strategies could be used by insiders or by cybercriminals to manipulate market prices

B. If machine learning-based traders outperform others, this could in the future result in many more traders adopting similar strategies

C. As with any herding behavior in the market, machine learning-based trading has the potential to reduce financial shocks

D. If machine learning-based traders outperform others, this could in the future to reduce the profitability of such strategies

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Q.4510 Which of the following does **not** match its description?

A. RegTech: any range of applications of FinTech for regulatory and compliance requirements and reporting by regulated financial institutions.

B. Social trading: a range of trading platforms that allow users to compare trading strategies or copy the trading strategy of other investors.

C. InsurTech: the application of FinTech for insurance markets.

D. Cluster analysis: a subset of machine learning, this refers to a method that uses algorithms inspired by the structure and function of the brain, called artificial neural networks.

Q.4511 Which of the following is an example of how a financial institution could use machine learning?

A. Whether the stock of a company will be higher one year from now

B. Which factors have driven the price of a particular stock

C. Which factors have driven the price of the overall bond market higher

D. Which economic factors positively influence the most the financial situation of developing economies

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Q.4512 Which of the following is a benefit of artificial intelligence and machine learning in the financial markets?

A. Reduce financial shocks

B. Reduce information asymmetry

C. Reduce operational cost

D. All of the above

Q.4513 Which of the following is **not** a subset of Fintech as stated in "Artificial intelligence and machine learning in financial services?"

A. Regtech

B. Tradetech

C. Suptech

D. Insurtech

Q.4514 Which of the following statements is true about artificial intelligence (AI) and machine learning (ML)?

A. ML uses simple algorithms resulting in improved transparency to consumers

B. It is usually simple for human users at financial institutions and for regulators to understand how decisions for trading are formulated by AI and ML algorithms

C. Central banks can use AI for economic forecasting

D. All of the above

Q.4515 Which of the following is spurring the adoption of artificial intelligence (AI) and machine learning (ML) in financial services?

A. Profitability

B. Competition

C. Regulatory compliance

D. All of the above

Reading 156: Climate Change: Physical Risk and Equity

Q.4759 Physical risk is best described as:

A. Economic and financial losses due to the increasing frequency and intensity of climate events

B. Shift to a low-carbon economy triggering changes in demand-related factors

C. The risk of a financial loss due to a borrower's failure to repay a part of or all the interests plus the principal of a loan

D. All of the above

Q.4760 Which of the following statements describes the role of insurers in a disaster event?

A. Issuing relief

B. Absorbing shock

C. Pricing physical risk

D. None of the above

Q.4761 Which one of the following is least likely a long-term climate change trend posing physical risk?

A. Acidifications of the oceans

B. Rising sea levels

C. Heatwaves

D. Changes in precipitation

Q.4762 The adverse effects of large climatic disasters on economic growth trigger a response in equity markets that inform financial stability assessment for various reasons. Which of the following best describes these reasons?

A. They may be reasons for decreasing volume and premiums of underwriting in the insurance sector

B. They do not offer a summary measure of the degree to which disasters impact financial institutions

C. A substantial drop in share prices may expose financial institutions to market risk

D. A substantial rise in share prices may expose financial institutions to liquidity risk in the event of a disaster.

Q.4763 Which of the following is the *least* reason for minimal reaction to insurers' stock prices in emerging markets and developing economies in the event of a climate disaster?

A. Subsidiaries of insurers listed abroad offer a substantial share of insurance

B. Insurers listed domestically do not or hardly cover climate disaster

C. Insurers are reinsuring a substantial share of their climate disaster exposure.

D. None of the above

Q.4764 Which one of the following best explains the impact of physical risk caused by natural disasters on the economy's supply-side?

A. Speed up capital stock depreciation

B. Raise the cost of replacement

C. Negatively impact labor production

D. All of the above

Q.4765 Which one of the following risks does NOT materialize due to natural disasters for banks?

A. Underwriting risk

B. Operational risk

C. Liquidity risk

D. Credit risk

Q.4766 In the event of a climate change and climate disaster event, banks in both developed and developing economies stocks record:

A. A slight positive temporary stock market response

B. A slight negative temporary stock market response

C. No stock market reaction

D. All of the above.

Q.4767 Which one of the following describes how a country's characteristics increase resilience in a climate disaster?

A. Risk-sharing mechanisms offered by financial markets mitigate damages suffered due to disaster-related events by non-financial and financial companies, thus limiting the expected impact on equity prices

B. A higher rate of insurance penetration dampens large disasters' effects on equity return

C. A sovereign's financial strength impacts the government's ability to respond to disasters by offering some form of insurance programs, offering financial relief, and enact reconstruction efforts, thereby absorbing the impact of large disasters on equity returns.

D. All of the above

Q.4768 In a natural disaster, the economy is impacted differently; one of it is physical risks impact on the demand side of the economy. Which one of the following best describes how natural disasters directly affect demand in the economy?

A. Extreme weather events facing households may increase precautionary saving, thus depressing private consumption

B. Natural disasters may speed up stock depreciation, therefore, impacting production levels and growth.

C. Liquidity risk arises in cases where the disaster causes a significant withdrawal of customer deposits.

D. Infrastructure damages, hence inability to supply goods

Q.4769 From a financial stability perspective, a sudden shift in an investor's perception of future physical risk impacts the value of assets by:

A. Increasing in value

B. Dropping in value

C. No impacts on assets' value

D. None of the above

Q.4770 The following statements describe channels through which climate change can affect financial stability:

I. Climate change can impact financial stability directly through the effect of more frequent and severe disasters and through gradual developments in the economy, whereby financial markets constitute an important interest
II. Financial markets can adversely be affected by the uncertainties related to the transition process's timing and pace for a low-carbon economy.
III. A higher rate of insurance penetration in a country absorbs shocks due to climate disasters, thereby concentrating the effects of the shock on the insurance sector, consequently limiting the expected impact on equity prices

Which of the following statements regarding the physical risk perspective identifies channels through which climate change can impact financial stability?

A. I and III

B. II and III

C. I and II

D. I, II, and III

Q.4771 A country's characteristics play a critical role in determining its ability to maintain financial stability regardless of future climate disaster shocks' size. Which of the following characteristics describe a country that can maintain stable financial stability in the face of large climate disasters?

A. Average insurance coverage/penetration

B. Sovereign with a strong financial strength

C. Increased precautionary savings in regions with extreme weather events

D. Diversion of capital from innovation and technology to replacement and restoration

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Q.4772 In line with the conventional asset pricing theory, it suggests that investors should:

A. Demand a premium for holding assets vulnerable to a potential rise in physical risk caused by climate change

B. Highly price assets vulnerable to a potential rise in physical risk caused by climate change than assets not exposed to change in physical risk

C. Price assets vulnerable to a potential rise in physical risk due to climate change, the same as assets not exposed to change in physical risk.

D. None of the above

Q.4773 Which of the following best describes why equity investors face difficulty in pricing physical risk increases due to climate change?

A. Challenges in estimating the probability of different climate scenarios and their physical risk consequences at a firm-level.

B. The climate change time horizons could be longer than what long-term institutional investors are used to considering.

C. Lack of focus across countries since they fail to reflect commonly discussed global warming scenarios and physical risk incidences in their equity valuation.

D. All of the above.

Reading 157: The Green Swan – Central Banking and Financial Stability in the Age of Climate Change

Q.4774 Which of the following describes a measure that should be implemented by governments and the private sector under climate risk approaches?

A. Non-disclosure of climate-related risks by the private sector

B. Non-mandatory disclosure of climate-related risks and other relevant information by the government

C. Voluntary disclosure of climate-related threats by the private sector

D. All of the above

Q.4775 Which of the following best explains why the climate is a threat to price stability?

A. Climate policy can also influence price stability

B. Uncertainty regarding the future development of demand and climate risks

C. Growth and productivity declines

D. All of the above

Q.4776 The following are features of a black swan event, **EXCEPT:**

A. It is surprising and beyond the realm of the usual expectation

B. It is an anticipated event

C. It could have been foreseen had the facts been carefully examined.

D. It has major or extreme consequences

Q.4777 Which of the following explains ways in which climate disasters could affect financial instability?

A. The decreased pace of capital depreciation

B. Decreased pressure on the insurance sector

C. Reallocation of household financial wealth

D. None of the above

Q.4778 The following are ways in which physical and transition risks can materialize in terms of financial risk, **EXCEPT:**

A. Credit risks

B. Liquidity risks

C. Climate-related risks

D. Operational Risks

Q.4779 An unexpected environmental catastrophe connected with global warming and the impacts of pollution that could trigger a systematic financial crisis with worldwide implications is referred to as;

A. Black swan

B. Green swan

C. Grey swan

D. Physical risk

Q.4780 Which of the following *best* identifies ways central banks can focus on the resilience of complex adaptative systems in the face of climate change uncertainty?

A. Qualitative approaches and non-equilibrium models to better capture the complex and uncertain interconnection between climate and socio-economic systems

B. Collaboration across the world

C. Prospective reforms of the international monetary and financial system

D. All of the above

Q.4781 Which of the following describes ways physical risks can materialize in the insurance sector in a climate disaster?

A. Increase in claim payouts

B. Potential underpricing of new insurance products covering green technologies

C. High probability of borrowers' default

D. Customers withdrawal of deposits from banks

Q.4782 Which of the following best explains why climate change is considered a "green swan" event?

A. They are risks humans generate for themselves by injecting contaminants into our water and air, thereby harming our ecosystem and destabilizing our climate.

B. They constitute financial losses, and economic costs arise due to the increasing frequency and severity of climate-related weather events and the impacts of long-term changes in climate trends.

C. They are the uncertain financial implications brought about due to the rapid low-carbon transition

D. None of the above

Q.4783 Which of the following identifies the two main channels through which climate change impacts financial stability?

A. Physical risk and Credit risk

B. Liquidity risk and transition risk

C. Physical risk and operational risk

D. Physical risk and transition risk

Q.4784 Which of the following statement about how green swans are different from black swans is true?

A. There is a high degree of uncertainty that some combination of transition and physical risks will materialize in the future

B. Climate disasters have severe implications than most frequent financial crises.

C. The complexity associated with climate change is of less extreme levels than that for black swans

D. None of the above

Q.4785 Transition risks associates with the uncertain financial implications brought about due to rapid low-carbon transition. The following identifies these uncertain financial implications, **EXCEPT;**

A. Shifts in market preferences

B. Changes in policies

C. Reputational implications

D. None of the above

Q.4786 Which of the following are characteristics of climate-related risks?

A. High certainty

B. Possibility of occurrence is reflected in past information

C. High potential of extreme impacts

D. Chances of occurrence are not reflected in future information

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Reading 158: When Selling Becomes Viral: Disruptions in Debt Markets in the COVID-19 Crisis and the Fed's Response

Q.4787 Which of the following is**NOT** a development of bond and CDS prices during March-April 2020?

A. Bond prices fell

B. Investment-grade corporate and municipal bond exchange-traded funds (ETFs) traded at a large discount to their net asset value (NAV)

C. CDS-bond basis spread for high yield bonds widened significantly.

D. Investment-grade increased.

Q.4788 The magnitude of debt market disruptions during the COVID-19 crisis was large compared to the Great Financial Crisis. Which of the following identifies the difference between the two crisis developments in the debt market?

A. The market disruptions disappeared as fast as they had appeared in the COVID-19 crisis compared to the Great Financial Crisis, which evolved from 2007 to 2009.

B. COVID-19 crisis had a slow response by the Fed compared to the Great Financial Crisis.

C. The primary dealers were the primary culprits of the problem for disruptions in the debt market in the COVID-19 crisis compared to the Great Financial Crisis of 2008-2009. They had their positions less relevant in the corporate bond market.

D. None of the above.

Q.4789 Which of the following identifies financial frictions witnessed in the early phases of the COVID-19 crisis?

A. CDS traded at a discount compared to the corresponding bonds

B. Bond exchange-traded funds (ETFs) traded at the same prices as their net asset value (NAV)

C. Bond exchange-traded funds (ETFs) traded at discounts relative to their net asset value (NAV)

D. All of the above.

Q.4790 The COVID-19 caused disruptions in the debt market, where one of it was dislocation in investment-grade bond prices in several measures. Which of the following is a dislocation in investment-grade bond prices realized in Mid-March?

A. The CDS-bond basis spreads for investment-grade bonds widened significantly during Mid-March

B. The increase in CDS spreads was significantly greater than the increase in bond for the same investment-grade firm

C. The usual relationship for CDS and bond spreads for investment-grade remained intact.

D. None of the above

Q.4791 Which of the following explains why exchange-traded funds (ETFs) traded at a discount relative to their net asset values (NAVs) in March-April 2020?

A. The exchange-traded funds (ETFs) were based on stale bond prices

B. The net asset value (NAVs) was based on stale bonds

C. Both exchange-traded funds (ETFs) and net asset value (NAVs) were based on stale bond prices

D. Selling pressures on the exchange-traded funds (ETFs) shares was reflected in the underlying market; thus, ETFs' share prices were up to date.

Q.4792 On March 23rd, 2020, the Federal Reserve announced the intervention of purchasing investment-grade bonds on primary and secondary markets (PMCCF/SMCCF) to enhance liquidity in the market. Which of the following is an impact of this intervention?

A. Investment-grade bond prices decreased

B. Both high-yield and investment-grade debt had their spreads decreasing.

C. Assets prices increased

D. Yields for investment-grade bonds decreased

Q.4793 The Federal Reserve announced that it would swap lines with core central banks by lowering the policy rate to zero on March 15th, 2020. What was the rationale for this intervention?

A. To enhance dollar liquidity around the world

B. To enhance the necessity to liquidate assets quickly

C. To ease balance sheet constraints

D. To decrease redemption pressure and pressure to sell both corporate bonds and Treasury securities.

Q.4794 The Federal Reserve's intervention to purchase corporate bonds had an impact on risky bond prices. Which of the following identifies the impact on bond prices?

A. It decreased the prices of risky bonds

B. It increased the prices of less risky bonds

C. It increased the prices of risky bonds

D. None of the above

Q.4795 The early phases of the COVID-19 crisis saw extreme financial frictions, which are explained in two perspectives. Which of the following identifies these perspectives?

A. Standard arbitrageurs could not match prices across markets

B. Some investors in the different markets were willing to purchase all types of assets.

C. Normal functioning of the exchange-traded funds (ETFs) arbitrage mechanism

D. All of the above

Q.4796 Which of the following identifies the Federal Reserve's announcement on April 9th, 2020?

A. It announced that it would purchase investment-grade bonds on primary and secondary markets (PMCCF/SMCCF).

B. It announced that it would allow the exclusion of treasuries and deposits from the leverage calculation for holding companies

C. It announced that it would swap lines with core central banks

D. It announced that it would buy some municipal bonds and expand corporate bond-buying programs to include some riskier debt.

Q.4797 Which of the following is true about the evolution of CDS spread during March-April 2020?

A. They increased

B. They decreased

C. They barely budged

D. None of the above.

Q.4798 Which of the following identifies the impact on investment-grade and high-yield bond prices when the Federal Reserve announced that it would purchase some municipal bonds and expand corporate bond-buying programs to include some riskier debt such as "fallen angels"?

A. Investment-grade and high-yield bond prices increased

B. Only high-yield bond prices increased

C. Only Investment-grade bond prices increased

D. None of the above

Reading 159: Financial Crime in Times of COVID-19 – AML and Cyber Resilience Measures

Q.4810 Which of the following is a risk posed by the Covid-19 outbreak?

A. Risks of cyber-attacks

B. Increase in money laundering

C. Financial terrorism

D. All of the above.

Q.4811 Which of the following explains the financial crimes during the Covid-19 pandemic?

A. Cyber threats related to malicious domains, malware, and ransomware, were dramatically increased

B. The growing abuse of online financial services

C. Covid-19 linked cybercrime is increasing at a high pace, with the financial sector being the most affected

D. All of the above.

Q.4812 Which of the following is **not** the main aims of Covid-19 linked cybercrimes?

A. Seeking illegal gains

B. Committing fraud

C. Robbing personal information

D. Technological innovations

Q.4813 When asked to give an overview on the financial crimes in times of Covid-19, an FRM candidate states the following:

I. Criminals take advantage of the gaps or vulnerabilities in financial AML defenses opened up by the pandemic
II. Covid-19 linked cybercrimes are increasing tremendously, with the financial sector being the most affected
III. Covid-19 linked cybercrime are mainly aimed at illegal personal gains.

Which of the above statement(s) is/are true?

A. I only

B. II only

C. I & II

D. All of the above.

Q.4814 Authorities worldwide are working towards providing guidance on the most relevant cyber resilience areas as a cyber resilience measure. Which one of the following is **not** a measure under this subtitle?

A. Providing guidance on the increased risks to IT networks and non-public information.

B. Use of existing domestic networks to share cyber-related information with financial and other trustworthy counterpart risks.

C. Advising on the need for staff training for financial institutions

D. Adaptation to cyber-security response plans in the context of the pandemic

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Q.4815 In efforts to providing guidance on the most relevant cyber resilience areas, the New York State Financial Services Department (DFS) (2020), for example, has provided guidance on the increased risks to IT networks and non-public information. Which of the following is **not** among the highlights of the New York State Financial Services Department (DFS) (2020)?

A. Taking steps in preventing loss of non-public information.

B. The use of stringent safety measures on corporate devices and strict controls on personal or home devices used to access corporate technical infrastructure

C. The need of depending on secure VPN links, encryption of all data in transit

D. None of the above.

Q.4816 Which of the following is not an AML measure?

A. Creating public awareness drawing attention to Covid-19 ML and TF threats

B. Working hand in hand with the financial sector

C. Providing onboarding instructions and streamlined due diligence for digital clients

D. Information-sharing on Covid-19-related threats

Q.4817 Which of the following is a **not** measure aimed at emphasizing the flexibility built into the AML/CFT risk-based framework and providing guidance on its application?

A. Encouraging the use of machine learning.

B. Encouraging the use of digital identification systems, with technological procedures, management, and other protections.

C. Applying AML/CFT standards to implemented and the appropriate monitoring tools in particular with regard to conditions for reporting.

D. The use of simplified due diligence methods.

Q.4818 Paul, an FRM candidate, gives the following statements regarding cybercrimes:

I. The US and Canada have issued a joint statement creating awareness of fake emails.
II. The law-enforcement agencies argue that Covid-19 linked cybercrime primarily aims at robbing personal information, causing a download of malware, committing fraud, or seeking illicit benefits

Which of the following statements is/are **true**?

A. I only

B. II only

C. I & II

D. None of the above

Q.4819 John, an FRM candidate, was asked to give the possible impacts of cybercrime on a financial institution amid the Covid-19 pandemic, and he said the following:

I. Cybercrimes may result in a standstill in the operations of a bank.
II. Cybercrimes may cause reputation issues to a company.

Which of the above is **not** true?

A. I only

B. I & II

C. II only

D. None of the above

Q.4820 When an FRM candidate is asked to give some conclusions relating to financial crimes during the pandemic, he gives the following:

I. The pandemic offers a beneficial financial crime climate.
II. Authorities have emphasized the need to draw attention to these crimes to provide better information for financial institutions and the general public.

Which of the above statements is **true**?

A. I only

B. I and II

C. II only

D. None of the above

Reading 160: Global Financial Stability Report: Markets in the Time of COVID-19

Q.4799 The US commercial paper market is usually sorted by companies to meet their spending needs; however, the commercial paper widened dramatically due to strained short-term financing markets during March-April 2020 due to the freezing of the US commercial paper market.The following statements explain the reason for these developments:

I. Prime money market funds lowered their commercial paper positions to raise cash and create ample liquidity in response to expected investor outflows
II. Dealer banks were less capable or willing to mediate these investor outflows due to balance sheet strains and risk restrictions
III. Dealers could not contain the spike in supply due to an increase in outflows from municipal bond funds

Which of the following correctly explains why the US commercial paper market froze?

A. I and II

B. I and III

C. II and III

D. III

Q.4800 Which of the following is a financial vulnerability that may be exposed due to further tightening of financial conditions?

A. Insurance companies may reap profits

B. Strong policy response and international cooperation are unnecessary to tackle challenges for emerging and frontier markets

C. Asset managers may be pressured to fire sales

D. All of the above

Q.4801 The following are monetary and financial policy responses to the COVID-19 crisis, **EXCEPT:**

A. Central banks have significantly cut policy rates in jurisdictions linked to crucial financial sectors

B. Central banks have tightened collateral standards

C. Several central banks have agreed to increase US dollar liquidity availability through swap line agreements

D. Several central banks have increased the availability of repos and foreign currency swap

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Q.4802 The tightening conditions in the US dollar funding markets caused:

A. The spread between LIBOR and risk-free rate to sharply narrow

B. The currency basis for most currencies declined

C. The spread between LIBOR and risk-free rate sharply widen while the currency basis for most currencies remained constant.

D. The currency basis for most currencies increased.

Q.4803 Which of the following is an intervention by the US Federal Reserve to mitigate selling pressure increases due to strained market liquidity in March-April, 2020?

A. Increasing the scope of asset purchases

B. Allowing foreign central banks to repurchase their Treasury shares in return for dollars

C. Introducing broader open-market programs to boost liquidity

D. All of the above

Q.4804 Which of the following identify a measure taken by central banks to mitigate foreign currency funding pressures in emerging markets?

A. Declined availability of repos and foreign currency swap

B. Increased reserve requirements for foreign currencies

C. Reactivation foreign currency intervention strategies by some countries to alleviate extreme volatility in their domestic currencies

D. None of the above

Q.4805 Since the global financial crisis, improvements have been made to enhance bank resilience in the face of a global crisis. Which of the following is **one** of the improvements?

A. Compared to the 2007-2008 global financial crisis, presently, banks hold fewer liquid assets.

B. Lower levels of capital reserves have been constructed since the global financial crisis

C. Bank monitoring has been minimized

D. Presence of a substantial and coordinated central bank action to provide banks with liquidity in many economies

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Q.4806 Which one of the following is **NOT** a development in emerging and frontier markets during March-April 2020?

A. Commodity-producing economies' currencies improved against the US dollar

B. The unforeseen combination of shocks resulting from the fall in oil prices and increased global risk vulnerability intensified sell-offs

C. The spread of dollar-denominated emerging market sovereign bonds had risen to the highest level since the global financial crisis

D. All of the above

Q.4807 The COVID-19 crisis has intensified slow economic activities and tightened financial conditions hence exposing global financial vulnerabilities. Which of the following is a global financial vulnerability for banks?

A. Banks are likely to see credit losses on their loans to households and businesses

B. Banks will have more profits available to cover losses compared to the past

C. Intensified financial vulnerabilities for insurers

D. All of the above

Q.4808 Which of the following caused tension in the commercial paper market in financial and commodity markets in March-April 2020?

A. Liquidity risk increases due to precautionary demand for the dollar

B. Rising market leverage as investment-grade bonds widened

C. Sectors hit hard by the pandemic experienced widening high-yield bond spreads

D. Unexpected declines in leverage loan prices

Q.4809 Which of the following is an intervention by the central bank to the pressures experienced in the short-term funding markets in March?

A. Enhancement of existing swap lines or new temporary swap lines

B. Increased currency basis for most currencies

C. Increasing the scope of asset purchases

D. Introducing broader open-market programs to boost liquidity

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Reading 161: Replacing LIBOR

Q.4827 Isaac, an FRM candidate, gives the following statements concerning LIBOR.

I. LIBOR is a risk-free rate.
II. LIBOR comes in five different currencies.
III. LIBOR is the world's most important benchmark rate.

Which of the above statements is **NOT** true about LIBOR?

A. I only

B. I & II

C. III only

D. All of the above

Q.4828 Which of the following is not a challenge facing LIBOR as a benchmark reference rate?

A. The methodology for calculating LIBOR is considered outdated.

B. Scarcity of the underlying transactions

C. LIBOR is subject to manipulation by individual banks.

D. LIBOR is becoming uncommon in many parts of the world.

Q.4829 Which of the following is NOT true about SOFR?

A. It is a benchmark rate whose maturity ranges from overnight to twelve months.

B. It is a new benchmark rate introduced to replace LIBOR

C. SOFR is based on actual transaction data rather than on estimated borrowing rates.

D. It is a benchmark interest rate for dollar-denominated derivatives and loans

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Q.4830 Which of the following is a reason why regulators are pushing for a world without LIBOR?

A. LIBOR is subject to manipulation by banks.

B. LIBOR is an unsecured lending rate

C. Lack of transparency in LIBOR computation

D. All of the above.

Q.4831 Although LIBOR is anticipated to cease soon, there are still key issues. Which of the following is a key issue when LIBOR ends?

A. Contracts for which LIBOR is the reference interest rate

B. Adequate substitute for intermediaries

C. None of the above

D. All of the above

Q.4832 Even though regulators are pushing hard for a world without LIBOR, the transition process is gradual. Which of the following best explains the reason behind the gradual transition process?

A. LIBOR is very familiar to everybody, unlike SOFR

B. It is costly to move to other new rates.

C. LIBOR-linked securities naturally have some hedges, unlike SOFR.

D. All of the above.

Q.4833 Despite the challenge of the anticipated delays in the change in the use of LIBOR, regulators are pushing on the financial institution to be prepared for a LIBOR-free world. The government also plays a role in ensuring the success of the transition. What is the role of the government in the LIBOR-transition?

A. Creating awareness of risks associated with full-dependent on LIBOR.

B. Governments should keep supervisors responsible for their financial institutions

C. Fostering public awareness of the ongoing developing changes.

D. All of the above

Q.4834 Which of the following does not gives the difference between SOFR and LIBOR?

A. SOFR is considered to be a risk-free rate, while LIBOR includes the credit risk of borrowing from a bank.

B. SOFR is based on real transactions and therefore can't be easily manipulated, while LIBOR is not based on real transactions and thus is subject to manipulation

C. SOFR only directly accounts for overnight transactions, while LIBOR estimates could be made for seven borrowing periods ranging from overnight to 12 months

D. SOFR-linked securities naturally have some hedge against the risk of bank financing, unlike LIBOR.

Q.4835 When asked to give reasons why SOFR is preferred over LIBOR, a candidate gave the following reasons;

I. SOFR has a shorter maturity as compared to LIBOR.
II. SOFR meets the standard for a deep liquid market that lacks in LIBOR.

Which of the following statement is **true**?

A. I only

B. II only

C. All of the above

D. None of the above

Q.4836 Which of the following is a risk issue that causes doubt that LIBOR will cease by 2021?

A. There are many outstanding contracts for which LIBOR is the reference rate.

B. Availability of central data storage systems that offer backups in these contracts.

C. Incomplete method of producing a reasonable dollar LIBOR substitute.

D. All of the above.

Reading 162: Cyber Risk and the U.S. Financial System: A Pre-Mortem Analysis

Q.4837 Which of the following best describes a cyber-event?

A. Non-authorized entry into the computer and network systems of a company leading to violation of information.

B. Transmission of signals over a communication network.

C. Stepping up of signals through a network system

D. Physical damage to computer systems of a company.

Q.4838 Cyber related events can be classified into three categories based on the technical nature of the event. Which of the following does not fall under this classification?

A. Confidentiality

B. Availability

C. Integrity

D. Accuracy

Q.4839 The following are characteristics of a cyber event. Which one is **not**?

A. Availability

B. Technology

C. Uncertainty

D. Intent

Q.4840 John, an FRM candidate, was asked to give the impacts of a cyber attack on a Financial Institution, and he said the following:

I. Cyber-attacks may result in a standstill in the operations of a bank
II. Cyber-attack may cause solvency problems

Which of the above statement(s) is/are **true**?

A. I only

B. II only

C. Both I & II

D. None of the above

Q.4841 An FRM candidate gives the following statements regarding amplification in the contest of cyber events.

I. Amplification is the process of stepping up of signals through a network system
II. Amplification is the transmission of signals through a network system

Which of the above statement(s) is/are true?

A. I only

B. II only

C. Both I & II

D. None of the above

Q.4842 Which of the following is a spillover effect of cyber-attack?

A. Immobilizes capital and liquidity

B. Impairs the ability of the bank to service running creditors

C. Ruins the reputation of the bank.

D. The banks directly suffer the costs of restoring the systems

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Q.4843 All the following refers to the process of amplification through network structure, **except**?

A. Technological ties.

B. Use of similar communication network

C. Virus attacks

D. Accounting based-effects

Q.4844 Which of the following is **not** a policy response to a cyber event?

A. Control and monitoring ex-ante should stress resistance to cyber events

B. Providing back-up systems in major financial markets

C. Having a bank holiday

D. None of the above.

Q.4845 Cyber-attacks can be optimally mitigated through additional roles of the Federal Reserve or other agencies. For example, the provision of dedicated back-up facilities in core markets could reduce the impact of availability and integrity events. However, the Federal is still unable to achieve this. Which of the following is **not** a reason for this scenario?

A. It is costly to install and maintain such extensive systems.

B. Affected banks may not expect that other banks may be attacked simultaneously.

C. Back-up systems introduced will interfere with the operation of the banks.

D. Liquidity issues may arise, leading to "crowded trades."

Q.4846 Similar to the traditional shock, a cyber event may require ex-post liquidity injections through discount, open market, or liquidity facilities in the market. Likewise, contingency preparation and cyber incidents resilience can be stressed by ex-ante control and supervision. However, the specific characteristics of cyber events cannot enable users to enforce conventional policy instruments, such as ex-ante capital or ex-post liquidity provision. As such, events that fall into the availability or integrity category may require additional policy responses. Which of the following is an example of such an additional policy response?

A. A bank holiday to allow the time needed for the recovery of the affected systems.

B. Sharing information about threat assessments and contingency plans with other banks

C. Providing back-up systems in major financial markets

D. None of the above
