Question #1 of 80

Question ID: 1530994

A risk consultant specializing in operational risks has been assigned to review a draft report on operational risks that was prepared by a bank's risk management department (to be used as a training tool in the future for new employees of the department). While reviewing the draft report, the consultant comes across a list of statements. Which of the following statements regarding operational risk should the consultant include in the final report?

A) Operational risks are often uncorrelated with each other.
B) Operational risks often materialize in the form of a large number of small losses.
C) Operational risks can be fully eliminated with sufficient avoidance, hedging, or insurance.
D) Operational risks are a set of risks with fairly similar and predictable causes, implications, and loss distributions.

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Question ID: 1531035

A U.S. bank anticipates that climate risk events will increase both in frequency and in magnitude in the future. In response, the bank has decided to: (1) lend at longer loan maturities to corporations and (2) increase its Tier 1 capital ratio by 1%. The bank's actions to protect against climate risks are appropriate with respect to:

A) lending at longer loan maturities only.
B) increasing its Tier 1 capital ratio only.
C) both lending at longer loan maturities and increasing its Tier 1 capital ratio.
D) neither lending at longer loan maturities nor increasing its Tier 1 capital ratio.

Question #3 of 80

Question ID: 1531032

The due diligence process for assessing investment managers should include information on the investment background and reputation of the managers and past performance. In addition, there should be an assessment of the fund's investment process, risk controls, operations, and business model. Which of the following statements regarding due diligence on potential fund investments is most accurate?

A) The due diligence approach should not be altered based on the fund strategy.

B) The track record of the manager, rather than the fund, should be carefully scrutinized.

C) A checklist approach should be used rather than asking open-ended questions to managers and associated parties.

D) An investor must assess the skills of a fund’s management team with regard to investing, operations, and business model.

Question #4 of 80

Question ID: 1268621

A risk manager uses a mean reversion model to estimate changes in correlations over time. Suppose that in November the average monthly correlation for all Dow Jones Industrial Average (DJIA) stocks was 25% and that the long-run mean correlation of DJIA stocks is 27%. The risk manager gathers current and historical stock prices, S, and runs a regression where $S_t - S_{t-1}$ (i.e., the dependent variable) is regressed with respect to S_{t-1} (i.e., the independent variable). The regression output estimates the following regression relationship: Y = 0.153 − 0.63X. What is the expected correlation for December given the mean reversion rate estimated in the regression analysis?

A) 23.7%.

B) 25.7%.

C) 26.3%.

D) 28.3%.

Question #5 of 80

Question ID: 1530992

A portfolio manager manages a long portfolio of debt and equity investments for an insurance company and has been trying to implement a new risk management program based on estimating and reporting the daily value at risk (VaR) for each manager's portfolio. He is writing a report to gain support for his proposal. If the manager determines that daily VaR (10%) for his portfolio is equal to $20,000, which of the following statements should he include in his report?

A) Computationally, delta-normal VaR is more complex than standard deviation but easier to interpret from a risk management perspective.
B) VaR was developed specifically for the purpose of measuring the economic capital required to protect bank portfolios against losses.
C) The risk of losing more than $20,000 in portfolio value in any given week is 10%.
D) Portfolio diversification is not fully accounted for using the VaR methodology.

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Question ID: 1530998

A risk manager presents an operational risk heatmap that shows the counts of individual risks grouped by likelihood and severity. The likelihood categories ranked from highest to lowest include near certain, likely, possible, unlikely, and rare. The severity categories ranked from highest to lowest include severe, major, moderate, minor, and insignificant. Given the limited resources that the company has available to address risks, which of the following combinations will the risk manager most likely recommend for resource allocation?

	Likelihood	Severity
A)	Possible	Moderate
B)	Near Certain	Minor
C)	Unlikely	Severe
D)	Likely	Major

Question #7 of 80

Question ID: 1531028

How many of the following statements regarding risk budgeting are correct?

I. Tracking error is defined as the standard deviation of the difference between the returns on a portfolio and the benchmark portfolio.
II. Using only information ratios allows risk of entire (firm) portfolios to be budgeted (allocated) across various portfolios managed by separate managers.
III. The optimal weights of the allocations to various fund managers (of a firm) do not necessarily have to sum to one.
IV. The benchmark portfolio cannot be assigned any weight under the optimal allocation scheme across active fund managers of a firm.

A) One statement is correct.
B) Two statements are correct.
C) Three statements are correct.
D) Four statements are correct.

Question #8 of 80

Question ID: 1531014

Ludington Bank and Trust expects to make $200 million new loans in the coming quarter. The bank also expects to invest $10 million in Treasury bonds and $15 million in mortgage-backed securities. It expects current loan customers to draw down an additional $20 million on revolving credit lines. The bank expects to retire 10 ATMs during the period. The machines will likely be sold at auction for less than they are carried on the balance sheet. Ludington Bank will also break ground on two new branches, each expected to cost approximately $15 million. The bank expects new deposits to be $175 million in the coming quarter. The available funds gap (AFG) for the coming quarter is closest to:

A) $25 million.
B) $70 million.
C) $225 million.
D) $245 million.

Question #9 of 80

Question ID: 1268631

According to the Merton model, if the firm's debt has a face value of $60 and the value of the firm is $50 when the debt matures, what are the payoffs to the debtholders and to the shareholders?

	Payoff to Debtholders	Payoff to Shareholders
A)	$50	$0
B)	$50	$10
C)	$10	$0
D)	$10	$10

Question #10 of 80

Question ID: 1531031

Historical data on hedge fund performance was difficult to obtain prior to the early 1990s. In early 1994, hedge fund databases were developed so that participants could better obtain and analyze hedge fund performance. Which of the following statements best describes hedge fund performance during the 2001–2010 time period?

A) All three hedge fund databases slightly underperformed equities but with a smaller standard deviation range compared to equities.

B) All three hedge fund databases substantially outperformed equities; however, their range of standard deviation was nearly double that of equities.

C) Hedge fund performance suffered following the Long-Term Capital Management (LTCM) hedge fund collapse.

D) All three hedge fund databases substantially outperformed equities, accompanied by less than half the standard deviation of equities.

Question #11 of 80

Question ID: 1268615

Suppose you are using the volatility-weighted historical simulation approach to estimate value at risk (VaR) and expected shortfall (ES) for asset Y. The actual return for the asset 30 days ago was 1.5% with a daily volatility estimate of 1.0%. What is the volatility-adjusted return if the current daily volatility is 1.4%?

A) 0.9%.

B) 1.6%.

C) 1.8%.

D) 2.1%.

Question #12 of 80

Question ID: 1357835

Specific methods are often used in structuring the securitization process of issuing notes to meet specific needs of investors. Which of the following statements most accurately describes a method used in structuring the securitization process?

A) The credit quality on the highest-rated tranche is enhanced by overcollateralization.

B) The first-loss piece or equity piece is the class of assets with the highest credit quality, and, therefore, the originator often maintains ownership of this tranche.

C) Under the cash waterfall process of securitization, a third party is often hired to run tests to ensure cash flows are sufficient to pay all senior tranches prior to making payments to junior tranches.

D) The master trust is a special type of structure that is used for infrequent issuers who demand unique one-time offerings.

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Question ID: 1531004

Risk aggregation is one of the challenging areas within the economic capital implementation framework. Risk aggregation involves identifying the individual risk types and making certain choices in aggregating those risk types. Classification by risk types (market, credit, operational, and business) may be approximate and prone to error. For example, the definitions of risk types may differ across banks or within a given bank, which complicates the aggregation process. Most banks begin by aggregating risk into silos by risk-type across the entire bank. Other banks prefer using business unit silos, while others combine both approaches. Which of the following statements regarding risk aggregation is correct?

A) Combining two portfolios, for risk aggregation across different portfolios or business units of a bank, will result in lower risk per investment unit in the combined portfolio versus the weighted average of the two separate portfolios.