



2024

**FRM**<sup>®</sup>

**PART II**  
PRACTICE EXAM II



**FRM**<sup>®</sup> | Financial Risk Manager

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## Introduction

The FRM Exam is a practice-oriented examination. Its questions are derived from a combination of theory, as set forth in the core readings, and “real-world” work experience. Candidates are expected to understand risk management concepts and approaches and how they would apply to a risk manager’s day-to-day activities.

The FRM Exam is also a comprehensive examination, testing a risk professional on a number of risk management concepts and approaches. It is very rare that a risk manager will be faced with an issue that can immediately be slotted into one category. In the real world, a risk manager must be able to identify any number of risk-related issues and be able to deal with them effectively.

The 2024 FRM Part II Practice Exam #1 and #2 have been developed to aid candidates in their preparation for the FRM Exam in May and November 2024. These Practice Exams are based on a sample of questions from prior FRM Exams and are suggestive of the questions that will be on the 2024 FRM Part II Exam.

The 2024 FRM Part II Practice Exam #2 contains 80 multiple-choice questions, the same number of questions that the actual 2024 FRM Exam Part II will contain. As such, this Practice Exam was designed to allow candidates to calibrate their preparedness both in terms of material and time.

The 2024 FRM Practice Exams do not necessarily cover all topics to be tested in the 2024 FRM Exam as any test samples from the universe of testable possible knowledge points. However, the questions selected for inclusion in the Practice Exams were chosen to be broadly reflective of the material assigned for 2024 as well as to represent the style of question that the FRM Committee considers appropriate based on assigned material.

For a complete list of current topics, core readings, and key learning objectives, candidates should refer to the 2024 FRM Exam Study Guide and 2024 FRM Learning Objectives.

Core readings were selected by the FRM Committee to assist candidates in their review of the subjects covered by the Exam. Questions for the FRM Exam are derived from the core readings. It is strongly suggested that candidates study these readings in depth prior to sitting for the Exam.

## Suggested Use of Practice Exams:

To maximize the effectiveness of the practice exams, candidates are encouraged to follow these recommendations:

1. Plan a date and time to take the practice exam.
  - Set dates appropriately to give sufficient study/review time for the practice exam prior to the actual exam.
  
2. Simulate the test environment as closely as possible.
  - Take the practice exam in a quiet place.
  - Have only the practice exam, candidate answer sheet, calculator, and writing instruments (pencils, erasers) available.
  - Minimize possible distractions from other people, cell phones, televisions, etc.; put away any study material before beginning the practice exam.
  - Allocate 4 hours to complete FRM Part I Practice Exam and 4 hours to complete FRM Part II Practice Exam and keep track of your time. The actual FRM Exam Part I and FRM Exam Part II are 4 hours each.
  - Complete the entire exam and answer all questions. Points are awarded for correct answers. There is no penalty on the FRM Exam for an incorrect answer.
  - Follow the FRM calculator policy. Candidates are only allowed to bring certain types of calculators into the exam room. The only calculators authorized for use on the FRM Exam in 2024 are listed below; there will be no exceptions to this policy. You will not be allowed into the exam room with a personal calculator other than the following: Texas Instruments BA II Plus (including the BA II Plus Professional), Hewlett Packard 12C (including the HP 12C Platinum and the Anniversary Edition), Hewlett Packard 10B II, Hewlett Packard 10B II+ and Hewlett Packard 20B.
  
3. After completing the FRM Practice Exams
  - Calculate your score by comparing your answer sheet with the practice exam answer key.
  - Use the practice exam Answers and Explanations to better understand the correct and incorrect answers and to identify topics that require additional review. Consult referenced core readings to prepare for the exam.
  - Remember: pass/fail status for the actual exam is based on the distribution of scores from all candidates, so use your scores only to gauge your own progress and level of preparedness.

Reference Table: Let Z be a standard normal random variable.

z	P(Z<z)	z	P(Z<z)	z	P(Z<z)	z	P(Z<z)	z	P(Z<z)	z	P(Z<z)
-3	0.0013	-2.50	0.0062	-2.00	0.0228	-1.50	0.0668	-1.00	0.1587	-0.50	0.3085
-2.99	0.0014	-2.49	0.0064	-1.99	0.0233	-1.49	0.0681	-0.99	0.1611	-0.49	0.3121
-2.98	0.0014	-2.48	0.0066	-1.98	0.0239	-1.48	0.0694	-0.98	0.1635	-0.48	0.3156
-2.97	0.0015	-2.47	0.0068	-1.97	0.0244	-1.47	0.0708	-0.97	0.1660	-0.47	0.3192
-2.96	0.0015	-2.46	0.0069	-1.96	0.0250	-1.46	0.0721	-0.96	0.1685	-0.46	0.3228
-2.95	0.0016	-2.45	0.0071	-1.95	0.0256	-1.45	0.0735	-0.95	0.1711	-0.45	0.3264
-2.94	0.0016	-2.44	0.0073	-1.94	0.0262	-1.44	0.0749	-0.94	0.1736	-0.44	0.3300
-2.93	0.0017	-2.43	0.0075	-1.93	0.0268	-1.43	0.0764	-0.93	0.1762	-0.43	0.3336
-2.92	0.0018	-2.42	0.0078	-1.92	0.0274	-1.42	0.0778	-0.92	0.1788	-0.42	0.3372
-2.91	0.0018	-2.41	0.0080	-1.91	0.0281	-1.41	0.0793	-0.91	0.1814	-0.41	0.3409
-2.9	0.0019	-2.40	0.0082	-1.90	0.0287	-1.40	0.0808	-0.90	0.1841	-0.40	0.3446
-2.89	0.0019	-2.39	0.0084	-1.89	0.0294	-1.39	0.0823	-0.89	0.1867	-0.39	0.3483
-2.88	0.0020	-2.38	0.0087	-1.88	0.0301	-1.38	0.0838	-0.88	0.1894	-0.38	0.3520
-2.87	0.0021	-2.37	0.0089	-1.87	0.0307	-1.37	0.0853	-0.87	0.1922	-0.37	0.3557
-2.86	0.0021	-2.36	0.0091	-1.86	0.0314	-1.36	0.0869	-0.86	0.1949	-0.36	0.3594
-2.85	0.0022	-2.35	0.0094	-1.85	0.0322	-1.35	0.0885	-0.85	0.1977	-0.35	0.3632
-2.84	0.0023	-2.34	0.0096	-1.84	0.0329	-1.34	0.0901	-0.84	0.2005	-0.34	0.3669
-2.83	0.0023	-2.33	0.0099	-1.83	0.0336	-1.33	0.0918	-0.83	0.2033	-0.33	0.3707
-2.82	0.0024	-2.32	0.0102	-1.82	0.0344	-1.32	0.0934	-0.82	0.2061	-0.32	0.3745
-2.81	0.0025	-2.31	0.0104	-1.81	0.0351	-1.31	0.0951	-0.81	0.2090	-0.31	0.3783
-2.8	0.0026	-2.30	0.0107	-1.80	0.0359	-1.30	0.0968	-0.80	0.2119	-0.30	0.3821
-2.79	0.0026	-2.29	0.0110	-1.79	0.0367	-1.29	0.0985	-0.79	0.2148	-0.29	0.3859
-2.78	0.0027	-2.28	0.0113	-1.78	0.0375	-1.28	0.1003	-0.78	0.2177	-0.28	0.3897
-2.77	0.0028	-2.27	0.0116	-1.77	0.0384	-1.27	0.1020	-0.77	0.2206	-0.27	0.3936
-2.76	0.0029	-2.26	0.0119	-1.76	0.0392	-1.26	0.1038	-0.76	0.2236	-0.26	0.3974
-2.75	0.0030	-2.25	0.0122	-1.75	0.0401	-1.25	0.1056	-0.75	0.2266	-0.25	0.4013
-2.74	0.0031	-2.24	0.0125	-1.74	0.0409	-1.24	0.1075	-0.74	0.2296	-0.24	0.4052
-2.73	0.0032	-2.23	0.0129	-1.73	0.0418	-1.23	0.1093	-0.73	0.2327	-0.23	0.4090
-2.72	0.0033	-2.22	0.0132	-1.72	0.0427	-1.22	0.1112	-0.72	0.2358	-0.22	0.4129
-2.71	0.0034	-2.21	0.0136	-1.71	0.0436	-1.21	0.1131	-0.71	0.2389	-0.21	0.4168
-2.7	0.0035	-2.20	0.0139	-1.70	0.0446	-1.20	0.1151	-0.70	0.2420	-0.20	0.4207
-2.69	0.0036	-2.19	0.0143	-1.69	0.0455	-1.19	0.1170	-0.69	0.2451	-0.19	0.4247
-2.68	0.0037	-2.18	0.0146	-1.68	0.0465	-1.18	0.1190	-0.68	0.2483	-0.18	0.4286
-2.67	0.0038	-2.17	0.0150	-1.67	0.0475	-1.17	0.1210	-0.67	0.2514	-0.17	0.4325
-2.66	0.0039	-2.16	0.0154	-1.66	0.0485	-1.16	0.1230	-0.66	0.2546	-0.16	0.4364
-2.65	0.0040	-2.15	0.0158	-1.65	0.0495	-1.15	0.1251	-0.65	0.2578	-0.15	0.4404
-2.64	0.0041	-2.14	0.0162	-1.64	0.0505	-1.14	0.1271	-0.64	0.2611	-0.14	0.4443
-2.63	0.0043	-2.13	0.0166	-1.63	0.0516	-1.13	0.1292	-0.63	0.2643	-0.13	0.4483
-2.62	0.0044	-2.12	0.0170	-1.62	0.0526	-1.12	0.1314	-0.62	0.2676	-0.12	0.4522
-2.61	0.0045	-2.11	0.0174	-1.61	0.0537	-1.11	0.1335	-0.61	0.2709	-0.11	0.4562
-2.6	0.0047	-2.10	0.0179	-1.60	0.0548	-1.10	0.1357	-0.60	0.2743	-0.10	0.4602
-2.59	0.0048	-2.09	0.0183	-1.59	0.0559	-1.09	0.1379	-0.59	0.2776	-0.09	0.4641
-2.58	0.0049	-2.08	0.0188	-1.58	0.0571	-1.08	0.1401	-0.58	0.2810	-0.08	0.4681
-2.57	0.0051	-2.07	0.0192	-1.57	0.0582	-1.07	0.1423	-0.57	0.2843	-0.07	0.4721
-2.56	0.0052	-2.06	0.0197	-1.56	0.0594	-1.06	0.1446	-0.56	0.2877	-0.06	0.4761
-2.55	0.0054	-2.05	0.0202	-1.55	0.0606	-1.05	0.1469	-0.55	0.2912	-0.05	0.4801
-2.54	0.0055	-2.04	0.0207	-1.54	0.0618	-1.04	0.1492	-0.54	0.2946	-0.04	0.4840
-2.53	0.0057	-2.03	0.0212	-1.53	0.0630	-1.03	0.1515	-0.53	0.2981	-0.03	0.4880
-2.52	0.0059	-2.02	0.0217	-1.52	0.0643	-1.02	0.1539	-0.52	0.3015	-0.02	0.4920
-2.51	0.0060	-2.01	0.0222	-1.51	0.0655	-1.01	0.1562	-0.51	0.3050	-0.01	0.4960

## Special Instructions and Definitions

1. Unless otherwise indicated, interest rates are continuously-compounded annual rates.
2. Unless otherwise indicated, option contracts are assumed to be on one unit of the underlying asset.
3. ALCO = asset-liability committee
4. bp(s) = basis point(s)
5. CAPM = capital asset pricing model
6. CCP = central counterparty or central clearing counterparty
7. CD = certificate of deposit
8. CDO = collateralized debt obligation(s)
9. CDS = credit default swap(s)
10. CEO, CFO, CIO, CRO, and CTO: chief executive, financial, investment, risk, and technology officers, respectively
11. CVA = credit value adjustment
12. ERM = enterprise risk management
13. ES = expected shortfall
14. ETF = exchange-traded fund
15. EWMA = exponentially weighted moving average
16. GARCH = generalized auto-regressive conditional heteroskedasticity
17. GDP = gross domestic product
18. IT = information technology
19. LIBOR = London interbank offered rate
20. MBS = mortgage-backed-security(securities)
21. NAV = net asset value
22. OECD = Organization for economic cooperation and development
23. OIS = overnight indexed swap
24. OTC = over-the-counter
25. RAROC = risk-adjusted return on capital
26. SOFR = secured overnight financing rate
27. VaR = value-at-risk
28. SPV = special purpose vehicle

29. The following acronyms are used for selected currencies:

Acronym	Currency
AUD	Australian dollar
BRL	Brazilian real
CAD	Canadian dollar
CHF	Swiss franc
CNY	Chinese yuan
EUR	euro

Acronym	Currency
GBP	British pound sterling
HKD	Hong Kong dollar
INR	Indian rupee
JPY	Japanese yen
SGD	Singapore dollar
USD	US dollar

2024 FRM Part II Practice Exam #2 – Candidate Answer Sheet

1.		21.		41.		61.	
2.		22.		42.		62.	
3.		23.		43.		63.	
4.		24.		44.		64.	
5.		25.		45.		65.	
6.		26.		46.		66.	
7.		27.		47.		67.	
8.		28.		48.		68.	
9.		29.		49.		69.	
10.		30.		50.		70.	
11.		31.		51.		71.	
12.		32.		52.		72.	
13.		33.		53.		73.	
14.		34.		54.		74.	
15.		35.		55.		75.	
16.		36.		56.		76.	
17.		37.		57.		77.	
18.		38.		58.		78.	
19.		39.		59.		79.	
20.		40.		60.		80.	

1. Question A group of newly hired investment analysts at a large wealth management firm is undergoing training on the company's investment practices. Part of the training focuses on hedge fund investments and addresses how the firm evaluates the risk management processes and procedures of a hedge fund being considered for investment. The analysts learn that the firm performs comprehensive due diligence on the hedge fund's investment environment, as well as on its operational environment and business practices. Which of the following is correct about a hedge fund investor's due diligence on the operational environment of a hedge fund?
- A An investor should assess the qualifications of the fund's investment team members but does not need to do the same for other fund personnel.
  - B An investor should investigate the fund's compliance practices but does not need to ensure that the fund has an in-house compliance function.
  - C An investor should review the fund documents but does not need to verify with the fund's law firm whether they are responsible for the content of these documents.
  - D An investor should ask if the fund uses third-party service providers but does not need to inquire about the fund's relationships with these service providers.
2. Question A risk manager in the stress testing group at a large bank is presenting at a conference about best practices in stress testing operational risk. The manager compares different types of stress testing approaches, including macroeconomic stress testing, parameter stress testing, and reverse stress testing. The manager then discusses the most suitable applications of each stress testing approach. Which of the following statements is the most appropriate use of the macroeconomic stress testing approach?
- A Assessing potential changes in dependencies between different measurable and immeasurable risks faced by the bank
  - B Stress testing the operational resilience of different important business services provided by the bank
  - C Analyzing the impact of a three-standard-deviation increase in interest rates on the modeled value of the bank's bond portfolio
  - D Determining how severe a financial market crisis would need to be in order to result in the bank's insolvency