2016-FRR Q&As

Financial Risk and Regulation (FRR) Series

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QUESTION 1

Which one of the four following statements regarding minimum loss data standards is not correct?

A. The loss data entry must include the actual loss amount.

B. The loss data program must comprehensively capture all material activities.

C. The loss data entry should only include the date when the event was reported.

D. The loss data entry may include descriptive information about the drivers or causes of the loss event.

Correct Answer: C

QUESTION 2

To safeguard its capital and obtain insurance if the borrowers cannot repay their loans, Gamma Bank accepts financial collateral to manage its credit risk and mitigate the effect of the borrowers\\' defaults. Gamma Bank will typically accept all of the following instruments as financial collateral EXCEPT?

A. Unrated bonds issued and traded on a recognized exchange

B. Equities and convertible bonds included in a main market index

C. Commercial debts owed to a company in a form of receivables

D. Mutual fund shares and similar unit investment vehicles subject to daily quotes

Correct Answer: C

QUESTION 3

Which of the following statements regarding CDO-squared is correct?

I. CDO-squared use other CDOs and CMOs as collateral.

II. Risk assessment of CDO-squared is almost impossible due to their complexity.

III.

CDO-squared have lower credit risk than CMOs but higher than CDOs.

A.

I only

B.

I and II

C.

II and III

D.

I, II, and III

Correct Answer: B

QUESTION 4

Which one of the following four mathematical option pricing models is used most widely for pricing European options?

A. The Black model

B. The Black-Scholes model

C. The Garman-Kohlhagen model

D. The Heston model

Correct Answer: B

QUESTION 5

ThetaBank has extended substantial financing to two mortgage companies, which these mortgage lenders use to finance their own lending. Individually, each of the mortgage companies have an exposure at default (EAD) of $20 million, with a loss given default (LGD) of 100%, and a probability of default of 10%. ThetaBank\\'s risk department predicts the joint probability of default at 5%. If the default risk of these mortgage companies were modeled as independent risks, the actual probability would be underestimated by:

A. 1%

B. 2%

C. 3%

D. 4%

Correct Answer: D