ICBRR Q&As

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QUESTION 1

Suppose that a regulator deems all corporate debt to have the same risk level. Which of the following behavior of banks would be an example of regulatory arbitrage?

A. Banks increase their exposure to corporate debt.

B. Banks decrease their exposure to corporate debt.

C. Banks shift their exposure to more risky corporate debt.

D. Banks shift their exposure to less risky corporate debt.

Correct Answer: C

QUESTION 2

An organization\\'s enterprise risk management framework defines its risk profile and typically reflects the organization\\'s

A. Market and credit risks

II. Operational and liquidity risks

III. Strategic and geopolitical risks

IV. Structural developments and industry position

B. I, II

C. I, IV

D. II, III

E. I, II, III

Correct Answer: D

QUESTION 3

Which of the following are conclusions that could be drawn from the shape of the statistical distribution of losses that a bank might incur over a future time period?

A. In most years a bank would look more profitable than it will be on average.

II. Most of the time a sufficiently well capitalized bank will appear over-capitalized.

III. Bad years do not come along very often, but when they do they lead to enormous losses.

B. I, II

C. I, III

D. II, III

E. I, II, III

Correct Answer: D

QUESTION 4

Alpha Bank determined that Delta Industrial Machinery Corporation has 2% change of default on a one-year no-payment of USD $1 million, including interest and principal repayment. The bank charges 3% interest rate spread to firms in the machinery industry, and the risk-free interest rate is 6%. Alpha Bank receives both interest and principal payments once at the end the year. Delta can only default at the end of the year. If Delta defaults, the bank expects to lose 50% of its promised payment. What may happen to the Delta\\'s initial credit parameter and the value of its loan if the machinery industry experiences adverse structural changes?

A. Probability of default and loss at default may decrease simultaneously, while duration rises causing the loan value to decrease.

B. Probability of default and loss at default may decrease simultaneously, while duration falls causing the loan value to decrease.

C. Probability of default and loss at default may increase simultaneously, while duration rises causing the loan value to decrease.

D. Probability of default and loss at default may increase simultaneously, while duration falls causing the loan value to decrease.

Correct Answer: D

QUESTION 5

Of all the risk factors in loan pricing, which one of the following four choices is likely to be the least significant?

A. Probability of default

B. Duration of default

C. Loss given default

D. Exposure at default

Correct Answer: B