# ICBRR Q&As

International Certificate in Banking Risk and Regulation (ICBRR)

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**QUESTION 1**

From the bank\\'s point of view, repricing the retail debt portfolio will introduce risks of fluctuations in:

A. Duration

II. Loss given default

III. Interest rates

IV. Bank spreads

B. I

C. II

D. I, II

E. III, IV

Correct Answer: D

**QUESTION 2**

Which one of the four following statements about technology systems for managing operational risk event data is incorrect?

A. Operational risk event databases are always integrated with the other components of the operational risk management program.

B. Operational risk loss event data collection software can be internally developed.

C. Operational risk event databases are independent elements of the operational risk management framework.

D. The implementation of a new operational risk event loss database has to incorporate an analysis of the advantages and disadvantages of external systems.

Correct Answer: A

**QUESTION 3**

Which one of the following four statements correctly describes an American call option?

A. An American call option gives the buyer of that call option the right to buy the underlying instrument on any date up to and including the expiry date.

B. An American call option gives the buyer of that call option the right to sell the underlying instrument on any date up to and including the expiry date.

C. An American call option gives the buyer of that call option the right to buy the underlying instrument on the expiry date.

D. An American call option gives the buyer of that call option the right to sell the underlying instrument on the expiry date.

Correct Answer: C

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**QUESTION 4**

Which one of the following four statements about the "market-maker" trading strategy is INCORRECT?

A. A market maker that attracts buy and sell orders can make a profit from the spread quoted between the buy and sell price.

B. A market maker can benefit from the market information she gets from the trades she is asked to execute.

C. This strategy is independent of market liquidity and number of other market makers.

D. This risk in this strategy is that traders have to take positions that may quickly incur a loss.

Correct Answer: C

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**QUESTION 5**

Which one of the following four statements describes the advantage of using delta-gamma method of mapping options positions over delta-normal method?

Delta-gamma method

A. Converts options into underlying factor risks according to their deltas and the gammas to those factors.

B. Fully captures option price risk, particularly for extreme price movements.

C. Overstates the risk of long option positions, but understate the risk of short option positions.

D. Approximates more accurately the non-linear relationship of option values and risk.

Correct Answer: D

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**QUESTION 6**

A trader attempts to hold long positions when markets are rising and hold short positions when markets are falling. Which one of the following four trading styles is she likely to use?

A. Technical trading

B. Contrarian trading

C. Black box trading

D. Market timing trading

Correct Answer: D

**QUESTION 7**

Which one of the four following statements about a minimal loss threshold in operational loss data collection is incorrect?

A. A company can have differing operational loss data collection and reporting thresholds for different departments.

B. The operational loss data collection program has to capture all losses regardless of their size.

C. Setting an operational loss data collection threshold depends on the risk appetite of the firm and regulatory requirements it needs to meet.

D. The operational loss data collection program must include all material losses that are above minimal gross loss threshold.

Correct Answer: B

**QUESTION 8**

Suppose Delta Bank enters into a number of long-term commercial and retail loans at fixed rate prevailing at the time the loans are originated. If the interest rates rise:

A. The bank will have to pay higher interest rates to its depositors and would have to pay higher rates on its debt to the extent the debt interest rate was linked to floating indices, or to the extent the debt used to fund the loans was of a shorter maturity than the loans.

B. The bank will have to pay higher interest rates to its depositors and would have to pay lower rates on its debt to the extent the debt interest rate was linked to floating indices, or to the extent the debt used to fund the loans was of a shorter maturity than the loans.

C. The bank will have to pay lower interest rates to its depositors and would have to pay higher rates on its debt to the extent the debt interest rate was linked to floating indices, or to the extent the debt used to fund the loans was of a shorter maturity than the loans.

D. The bank will have to pay lower interest rates to its depositors and would have to pay lower rates on its debt to the extent the debt interest rate was linked to floating indices, or to the extent the debt used to fund the loans was of a shorter maturity than the loans.

Correct Answer: A

**QUESTION 9**

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

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**QUESTION 10**

Bank G has a 1-year VaR of USD 20 million at 99% confidence level while bank H has a 1- year VaR of USD 10 million at the same confidence level. Which bank is in a more risky position as measured by VaR?

A. Bank H is taking twice the risk of bank G as measured by VaR.

B. Bank G is taking twice the risk of bank H as measured by VaR.

C. Since the confidence levels are the same we cannot make any conclusions.

D. Both banks are equally risky since the measurements are with the same confidence level.

Correct Answer: B

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**QUESTION 11**

Which one of the following four variables of the Black-Scholes model is typically NOT known at a point in time?

A. The underlying relevant exchange rates

B. The underlying interest rates

C. The future volatility of the exchange rates

D. The time to maturity

Correct Answer: C

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**QUESTION 12**

Which one of the following four formulas correctly identifies the expected loss for all credit instruments?

A. Expected Loss = Probability of Default x Loss Given Default x Exposure at Default

B. Expected Loss = Probability of Default x Loss Given Default + Exposure at Default

C. Expected Loss = Probability of Default x Loss Given Default - Exposure at Default

D. Expected Loss = Probability of Default x Loss Given Default / Exposure at Default

Correct Answer: A

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**QUESTION 13**

Changes to which one of the following four factors would typically not increase the cost of credit?

A. Increasing inflation rates in a country.

B. Increase in consumption of goods and services.

C. Higher risk premium on a fixed income instrument.

D. Higher return earned on alternative investments.

Correct Answer: C

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**QUESTION 14**

A risk analyst is considering how to reduce the bank\\'s exposure to rising interest rates. Which of the following strategies will help her achieve this objective?

A. Reducing the average repricing time of its loans II. Increasing the average repricing time of its deposits

III. Entering into interest rate swaps

IV. Improving earnings capacity and increasing intermediated funds

B. I, II

C. III

D. IV

E. I, II, IV

Correct Answer: D

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**QUESTION 15**

A risk manager analyzes a long position with a USD 10 million value. To hedge the portfolio, it seeks to use options that decrease JPY 0.50 in value for every JPY 1 increase in the long position. At first approximation, what is the overall exposure to USD depreciation?

A. His overall portfolio has the same exposure to USD as a portfolio that is long USD 5 million.

B. His overall portfolio has the same exposure to USD as a portfolio that is long USD 10 million.

C. His overall portfolio has the same exposure to USD as a portfolio that is short USD 5 million.

D. His overall portfolio has the same exposure to USD as a portfolio that is short USD 10 million.

Correct Answer: A