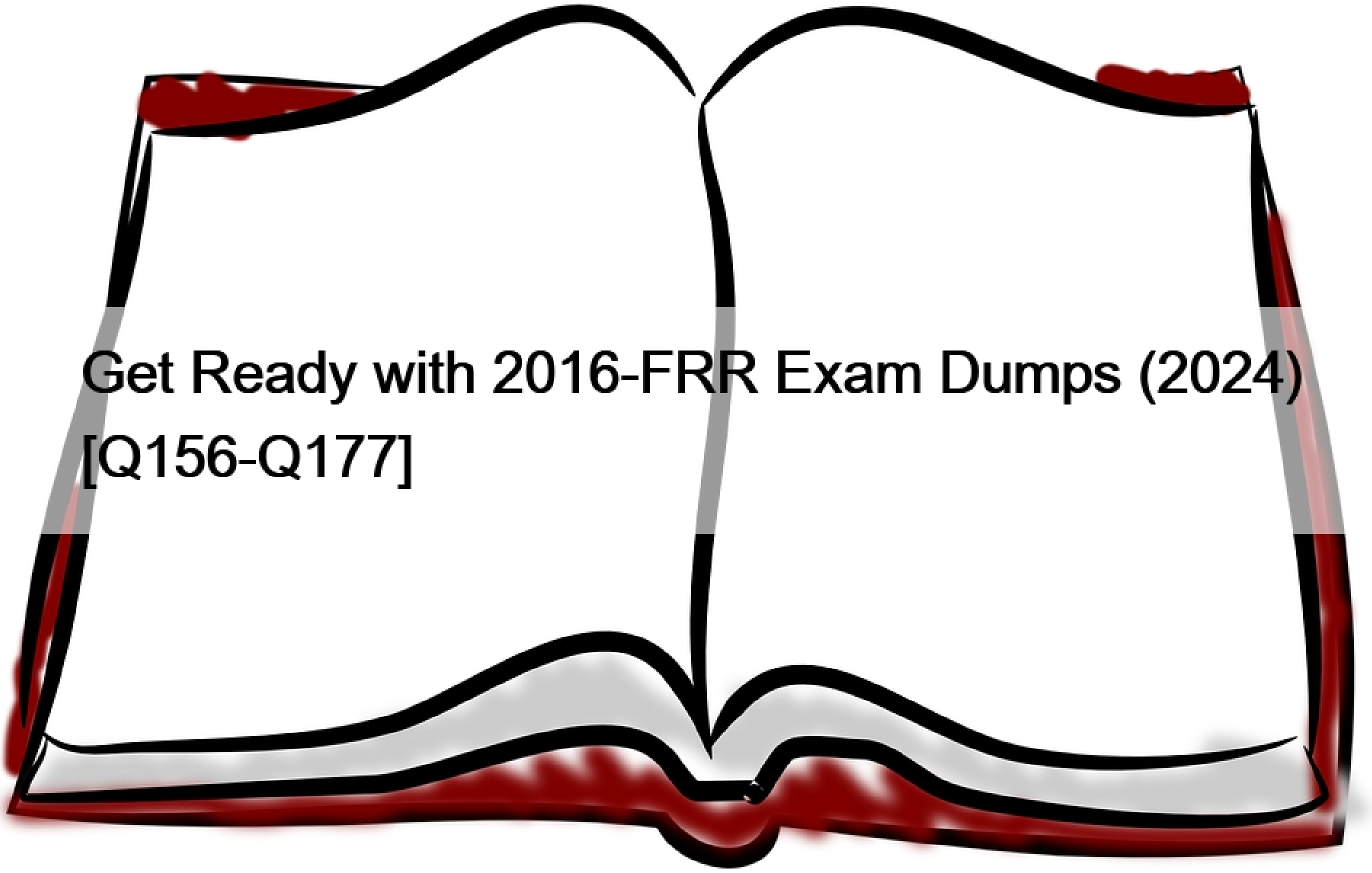
Get Ready with 2016-FRR Exam Dumps (2024) [Q156-Q177



Get Ready with 2016-FRR Exam Dumps (2024) Realistic 2016-FRR Dumps are Available for Instant Access

The most recent FRR exam, GARP 2016-FRR, was released in 2016 and covers a wide range of topics related to financial risk management and regulation. 2016-FRR exam is divided into two parts: Part I covers topics such as quantitative analysis, financial markets and products, and valuation and risk models, while Part II focuses on regulatory and ethical issues, including global regulatory frameworks, risk governance, and professional conduct.

GARP 2016-FRR (Financial Risk and Regulation) series exam is a highly specialized certification exam designed for financial risk management professionals. 2016-FRR exam is administered by the Global Association of Risk Professionals (GARP) and is recognized worldwide as a benchmark for risk management professionals. The GARP 2016-FRR exam covers a wide range of topics, including financial risk management, regulatory compliance, and governance.

NEW QUESTION 156

Which one of the following four statements does identify correctly the relationship between the value of an

option and perceived exchange rate volatility?
* With increases in perceived future foreign exchange volatility, the value of all foreign exchange
* As the perceived future foreign exchange volatility decreases, the value of all options increases.
* As the perceived future foreign exchange volatility increases, the value of all options increases.
* Option values can only change due to the factors related to the demand for specific options

NEW QUESTION 157

Altman’s Z-score incorporates all the following variables that are predictive of bankruptcy EXCEPT:
* Return on total assets
* Sales to total assets
* Equity to debt
* Return on equity

Altman’s Z-score is a formula used to predict the likelihood of a company entering bankruptcy within a certain time frame. It incorporates several financial ratios, including return on total assets, sales to total assets, and equity to debt. However, it does not include return on equity. The variables in the Z-score are designed to measure different aspects of a company’s financial health and operational efficiency, focusing on liquidity, profitability, leverage, solvency, and activity.

NEW QUESTION 158

Operational risk team for a large international bank is implementing business continuity planning (BCP).

Which of the following BCP activities fall within the definition of operational risk and represent Basel II

Accord’s operational risk categories:

I. Damage to Physical Assets

II. Business Disruption and System Failures

III. Social Distancing Requirements

IV. Potential for Extreme Losses
* I and II
* III
* I and IV
* III and IV

NEW QUESTION 159

Which one of the following four statements correctly identifies disadvantages of using the economic capital?
* The economic capital models used by banks may be subject to significant model risk.
* Economic capital may do not take into consideration the regulatory requirements.
* Since banks are putting their money at risk they have an incentive to increase economic capital.
* Economic capital estimates the level of expected losses.

NEW QUESTION 160

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

I. Duration

II. Loss given default

III. Interest rates

IV. Bank spreads
* I
* II
* I, II
* III, IV
From the bank’s point of view, repricing the retail debt portfolio introduces risks primarily related to fluctuations in interest rates and bank spreads. When interest rates change, the cost of funds for the bank can fluctuate, which affects the interest margins (bank spreads). Additionally, the repricing of existing debt to match current market rates introduces direct exposure to interest rate volatility. Therefore, the risks associated with fluctuations in these areas are III. Interest rates and IV. Bank spreads.

NEW QUESTION 161

When the cost of gold is $1,100 per bullion and the 3-month forward contract trades at $900, a commodity

trader seeks out arbitrage opportunities in this relationship. To capitalize on any arbitrage opportunities, the

trader could implement which one of the following four strategies?
* Short-sell physical gold and take a long position in the futures contract
* Take a long position in physical gold and short-sell the futures contract
* Short-sell both physical gold and futures contract
* Take long positions in both physical gold and futures contract

NEW QUESTION 162

What is a difference between currency swaps and interest rate swaps?
* Currency swaps do not require the exchange of notional principal on maturity.
* Currency swaps allow banks and customers to obtain the risk/reward profile of long-term interest rates without having to use long-term funding.
* Currency swaps are OTC derivative contracts.
* Currency swaps generate foreign exchange rate risk in addition to interest rate risk.
Currency swaps and interest rate swaps differ primarily in the risks they manage and generate. While both are OTC derivative contracts, currency swaps involve the exchange of principal and interest payments in one currency for principal and interest payments in another currency. This not only involves managing interest rate risk but also introduces foreign exchange rate risk, as fluctuations in currency exchange rates can affect the value of the payments exchanged.

NEW QUESTION 163

Normally, commercial banking can be viewed as a fixed income carry trade since
* Short-term floating-rate deposits are used to fund long-term fixed rate loans.
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Commercial banking can be viewed as a fixed-income carry trade because banks typically engage in maturity transformation, where they borrow short-term and lend long-term.

* Short-term floating-rate deposits:

* Banks often attract deposits with short-term maturities and floating interest rates.

* These deposits are generally considered stable and low-cost sources of funds.

* Long-term fixed-rate loans:

* Banks use these short-term deposits to fund long-term loans, such as mortgages or business loans, which typically have fixed interest rates.

* This creates a mismatch between the interest rates and maturities of assets and liabilities.

* Carry trade analogy:

* The bank earns the spread between the interest it pays on short-term deposits and the interest it earns on long-term loans.

* This process is similar to a carry trade, where profits are derived from the difference between borrowing costs and investment returns.

Thus, commercial banking inherently involves aspects of a carry trade through the practice of borrowing short-term to lend long-term.

ReferencesSource: How Finance Works

NEW QUESTION 164

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?
* Probability of default and loss at default may decrease simultaneously, while duration rises causing the loan value to decrease.
* Probability of default and loss at default may decrease simultaneously, while duration falls causing the loan value to decrease.
* Probability of default and loss at default may increase simultaneously, while duration rises causing the loan value to decrease.
* Probability of default and loss at default may increase simultaneously, while duration falls causing the loan value to decrease.
* Probability of Default (PD) Increase: If the machinery industry experiences adverse structural changes, the economic conditions worsen for Delta Industrial Machinery Corporation. This results in a higher likelihood of financial distress and potential default. Therefore, the probability of default increases.

* Loss Given Default (LGD) Increase: In the event of adverse structural changes, the recovery rates on the loan may diminish due to potential decreases in the value of the company’s assets. Hence, the bank might face higher losses if Delta defaults, leading to an increase in the loss given default.

* Duration and Loan Value: An increase in both PD and LGD generally signifies greater risk. To compensate for this increased risk, the loan might be extended or restructured, leading to a longer duration. Higher risk and longer duration typically decrease the present value of the loan, as the expected cash flows are discounted more heavily due to the increased risk.

NEW QUESTION 165

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?

I. 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.
* I, II
* I, III
* II, III
* I, II, III
From the statistical distribution of bank losses over a future period, several conclusions can be drawn:

* I. In most years a bank would look more profitable than it will be on average: This indicates that most years will show better-than-average profitability because the distribution of losses includes infrequent but severe loss events.

* II. Most of the time a sufficiently well-capitalized bank will appear over-capitalized: Because banks prepare for rare but significant losses, in normal years, their capital reserves may seem excessive.

* III. Bad years do not come along very often, but when they do they lead to enormous losses: This reflects the heavy-tailed nature of the loss distribution, where extreme losses are rare but severe.

All three statements correctly reflect the characteristics of the loss distribution for banks.References: How Finance Works, sections covering statistical analysis of losses and capital adequacy.

NEW QUESTION 166

The market risk manager of SigmaBank is concerned with the value of the assets in the bank’s trading book.

Which one of the four following positions would most likely be not included in that book?
* 10,000 shares of IBM worth $10,000,000.
* $10,000,000 loan to IBM worth $9,800,000.
* $10,000,000 bond issued by IBM worth $11,000,000.
* 300,000 options on IBM shares worth $10,000,000.

NEW QUESTION 167

To estimate the responsiveness of a particular equity portfolio to the overall market, a trader should use the portfolio’s
* Alpha
* Beta
* CVaR
* VaR
* Beta measures the responsiveness of a particular equity or equity portfolio to the overall market.

* It captures the correlation between the returns of the equity portfolio and the market returns, indicating how much the portfolio’s value changes in response to market movements.

NEW QUESTION 168

What is the role of market risk management function within a bank?

I. Control and minimize the risks the bank should take.

II. Establish a comprehensive market risk policy framework.

III. Define, approve and monitor risk limits.

IV. Perform stress tests and other qualitative risk assessments.
* I and III
* II and IV
* I, II and III
* II, III, and IV

NEW QUESTION 169

Which one of the following four relationships should be used to price equity forwards or futures?
* Equity forward or futures price = market equity price + (1 + risk-free rate – expected dividend rate)t
* Equity forward or futures price = market equity price x (1 – risk-free rate – expected dividend rate)t
* Equity forward or futures price = market equity price x (1 + risk-free rate – expected dividend rate)t
* Equity forward or futures price = market equity price + (1 + risk-free rate + expected dividend rate)t

NEW QUESTION 170

Which one of the four following non-statistical risk measures are typically not used to quantify market risk?
* Option sensitivities
* Net closed positions
* Convexity
* Basis point values

Non-statistical risk measures typically used to quantify market risk include:

* Option Sensitivities:

* Measures such as delta, gamma, vega, and theta which indicate how option prices are affected by various factors.

* Convexity:

* This measures the sensitivity of the duration of a bond to changes in interest rates, an important factor in bond risk management.

* Basis Point Values (BPV):

* This measures the change in the value of a financial instrument or portfolio for a one basis point change in yield, used to assess interest rate risk.

* Net Closed Positions:

* This is not typically used to quantify market risk. It simply represents the net value of positions that have been offset or closed out

and does not provide a measure of risk exposure.

Thus, net closed positions are not typically used to quantify market risk.

ReferencesSource: How Finance Works

NEW QUESTION 171

Bank Alpha is making a decision about lending 10-year loans in a sector that is fairly illiquid and is looking at various options to fund the loans. Which of the following options to fund the loans exhibits the most exogenous liquidity risk?
* Overnight interbank markets
* The 6-month LIBOR markets
* The 1-year treasury markets
* Foreign exchange markets

Bank Alpha is making a decision about lending 10-year loans in a sector that is fairly illiquid. This type of lending requires stable and long-term funding sources to match the loan duration and illiquidity. Among the options provided:

* Overnight interbank markets: This option involves very short-term borrowing which needs to be rolled over frequently. The liquidity risk is high because the market conditions can change daily, making it the most exogenous liquidity risk as the availability and cost of funds can vary widely and unpredictably.

* The 6-month LIBOR markets: This is a short to medium-term funding option, still involving some liquidity risk due to the need for periodic refinancing, but less frequent than overnight markets.

* The 1-year treasury markets: Treasury markets are generally more stable and have lower liquidity risk compared to interbank markets. However, they still require annual refinancing.

* Foreign exchange markets: These markets add the complexity of currency risk along with liquidity risk.

Thus, overnight interbank markets exhibit the most exogenous liquidity risk due to the need for daily refinancing.References: How Finance Works, relevant pages discussing liquidity risks associated with different funding options.

NEW QUESTION 172

Alpha Bank, a small bank,has a long position with larger BetaBank and has an identical short position with

another larger bank GammaBank. Each large bank requires a 20% initial collateral to support the trade. As

prices fluctuate in either direction, one large bank will require additional collateral from the small bank, while

the risk of loss to the other large bank will increase. By running the trades through a clearinghouse, the small

bank can achieve all of the following objectives EXCEPT:
* Eliminating the collateral requirement
* Protecting itself against increases in future collateral demands
* Protecting against the risk of the failure of one of the large banks
* Mitigating option hedging risks and altering margin requirement

NEW QUESTION 173

According to a Moody’s study, the most important drivers of the loss given default historically have been all of the following EXCEPT:

I. Debt type and seniority

II. Macroeconomic environment

III. Obligor asset type

IV. Recourse
* I
* II
* I, II
* III, IV
* Key Drivers of Loss Given Default: According to Moody’s study, the most important drivers of loss given default (LGD) historically have been debt type and seniority, and the macroeconomic environment. These factors directly impact the severity of losses in the event of default by determining the priority of debt repayments and the overall economic conditions affecting the obligor’s ability to recover.

* Exclusions: The asset type of the obligor and recourse are not considered primary drivers of LGD in Moody’s historical analysis. While they can influence the recovery process, they do not hold the same level of importance as the debt structure and economic conditions.

NEW QUESTION 174

Of all the risk factors in loan pricing, which one of the following four choices is likely to be the least significant?
* Probability of default
* Duration of default
* Loss given default
* Exposure at default
* Factors in Loan Pricing: The most critical factors in loan pricing are the probability of default, loss given default, and exposure at default. These directly impact the risk assessment and pricing strategies for loans.

* Less Significant Factor: The duration of default, while relevant, is less significant compared to the immediate risk factors. It primarily affects the timing rather than the magnitude of potential losses.

NEW QUESTION 175

A credit portfolio manager analyzes a large retail credit portfolio. Which of the following factors will represent

typical disadvantages of market-linked credit risk drivers?

I. Need to supply a large number of input parameters to the model

II. Slow computation speed due to higher simulation complexity

III. Non-linear nature of the model applicable to a specific type of credit portfolios

IV. Need to estimate a large number of unknown variable and use approximations
* I

* I, II
* II, III
* III, IV

NEW QUESTION 176

What is the order in which creditors and shareholders get repaid in the event of a bank liquidation?
* Depositors, shareholders, debt holders.
* Debt holders, depositors, shareholders.
* Depositors, debt holders, shareholders.
* Depositors, shareholders, depositors.
In the event of a bank liquidation, the order of repayment is as follows:

* Depositors: They are given priority as they are often covered by deposit insurance schemes to maintain confidence in the banking system.

* Debt Holders: After depositors, holders of the bank’s debt are repaid. This includes both secured and unsecured creditors, with secured creditors having a higher claim.

* Shareholders: They are last in line to receive any remaining funds after all other obligations have been satisfied. Common shareholders are the last to be paid, after preferred shareholders.

This hierarchy ensures that the most senior and secured claims are addressed first, providing a structured approach to liquidation.References: How Finance Works, discussions on bank liquidation processes and the hierarchy of claims.

NEW QUESTION 177

US based Alpha Bank holds European corporate bonds and US inflation-indexed Treasury notes in its

investment portfolio. This investment portfolio is not exposed to changes in which of the following?
* Foreign exchange rates
* Credit spread on the corporate bonds
* Equity values
* European interest rates

Which documents are required, on the day of the GARP 2016-FRR Certification

Documents required of the day of the GARP 2016-FRR Certification are a GARP member card and your government-issued identification (Passport/Driver's license/National ID card), as elaborated by **2016-FRR exam dumps**. A dump of GARP FRR certification queries with answers and the right answers will be posted here before you take it. Please remember to study them. Existing users like the Saien, lib, più, Che, Regex, Cosa, Httrack, and UNA have uploaded the full guides on GARP 2016-FRR Certification for candidates taking it online.