A fully updated 2025 2016-FRR Exam Dumps exam guide from training expert TestKingFree [Q92-Q114

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NO.92 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.

NO.93 Which one of the four following statements about a minimal loss threshold in operational loss data collection is incorrect?
* A company can have differing operational loss data collection and reporting thresholds for different departments.
* The operational loss data collection program has to capture all losses regardless of their size.
* Setting an operational loss data collection threshold depends on the risk appetite of the firm and regulatory requirements it needs to meet.
* The operational loss data collection program must include all material losses that are above minimal gross loss threshold.
* Option A: A company can have differing operational loss data collection and reporting thresholds for different departments.

* Verified and correct. Different departments might have various risk exposures and thresholds based on their specific operational risk profiles.

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

* Incorrect. A minimal loss threshold is usually set to avoid the administrative burden of capturing

* immaterial losses. Companies typically set thresholds based on risk appetite and regulatory requirements.

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

* Verified and correct. Thresholds are set based on the company’s risk appetite and regulatory expectations to ensure effective and efficient loss data collection.

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

* Verified and correct. Only losses above the set threshold are required to be captured to maintain a focus on material risks.

NO.94 Which of the following bank events could stress the bank’s liquidity position?

I. Obligations to fund assets like mortgages

II. Unusually large depositor withdrawals

III. Counterparty collateral calls

IV. Nonperforming assets
* I, II
* IV
* III, IV
* I, II, III and IV
All the listed events could stress a bank’s liquidity position:

* I: Obligations to fund assets like mortgages require liquidity to fulfill lending commitments.

* II: Unusually large depositor withdrawals can lead to a liquidity crunch.

* III: Counterparty collateral calls require immediate liquidity to meet margin requirements.

* IV: Nonperforming assets reduce the bank’s liquidity by tying up resources in non-earning assets.

ReferencesBased on comprehensive analysis of factors affecting bank liquidity and potential stress points.

NO.95 Gamma Bank is active in loan underwriting and securitization business, and given its collective credit exposure, it will be typically most interested in the following types of portfolio credit risk:

I. Expected loss

II. Duration

III. Unexpected loss

IV. Factor sensitivities
* I
* II
* I, III
* I, III, IV
Gamma Bank, active in loan underwriting and securitization, would typically be most interested in:

* Expected Loss: The anticipated average loss from defaults in the credit portfolio.

* Unexpected Loss: The potential variability or deviation from the expected loss, critical for understanding the risk beyond average expectations.

Duration and factor sensitivities are more relevant to market risk rather than direct credit risk.

References

* Verified information from the document

NO.96 For two variables, which of the following is equal to the average product of the deviations from their

respective means?
* Standard deviation
* Kurtosis
* Correlation
* Covariance

NO.97 Which of the following statements describes a bank’s reasons to set risk limits?

I. To control and minimize a bank’s current risk exposure.

II. To predict future risks.

III. To allocate risks to business units.

IV. To keep risk within tolerance levels.
* I and II
* III and IV
* I, II, and III
* I, III, and IV
Banks set risk limits for several reasons:

* To control and minimize a bank’s current risk exposure: This helps in managing and mitigating existing risks.

* To allocate risks to business units: This ensures that risks are managed at appropriate levels within the organization.

* To keep risk within tolerance levels: This ensures that the bank’s overall risk exposure does not exceed its risk appetite.

Setting these limits is a proactive measure to ensure that the bank operates within its risk capacity and is prepared for potential future risks.

NO.98 All of the following performance statistics typically benefit country’s creditworthiness EXCEPT:
* Low unemployment
* Low inflation
* High degrees of investment
* Low degrees of savings

NO.99 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

NO.100 Rising TED spread is typically a sign of increase in what type of risk among large banks?

I. Credit risk

II. Market risk

III. Liquidity risk

IV. Operational risk
* I only
* II only
* I and IV
* I, II, and III
The TED spread is the difference between the interest rates on interbank loans and short-term U.S.

government debt (Treasuries). A rising TED spread indicates that lenders believe the risk of default on interbank loans is increasing. This typically reflects increased credit risk, market risk, and liquidity risk among banks. Higher TED spreads suggest that banks are less willing to lend to each other due to concerns about their solvency and liquidity positions.

NO.101 Which one of the following four statements on the seniority of corporate bonds is incorrect?

* Senior bonds typically have lower credit spreads than junior bonds with the same maturity and payment characteristics.
* Seniority refers to the priority of a bond in bankruptcy.
* Junior bonds always pay higher coupons than subordinated bonds.
* In bankruptcy, holders of senior bonds are paid in full before any holders of subordinated bonds receive payment.

The incorrect statement about the seniority of corporate bonds is that “Junior bonds always pay higher coupons than subordinated bonds.” Junior bonds are also known as subordinated bonds. The coupon rate of bonds is influenced by several factors, including the issuer’s credit quality and market conditions, but the statement incorrectly assumes that junior bonds must always have higher coupons than subordinated bonds, which is not necessarily true.

NO.102 To estimate a partial change in option price, a risk manager will use the following formula:
* Partial change in option price = Delta x Change in underlying price
* Partial change in option price = Delta x (1+ Change in underlying price)
* Partial change in option price = Delta x Gamma x Change in underlying price
* Partial change in option price = Delta x Gamma x (1+ Change in underlying price)

NO.103 An asset manager for a large mutual fund is considering forward exchange positions traded in a clearinghouse

system and needs to mitigate the risks created as a result of this operation. Which of the following risks will be

created as a result of the forward exchange transaction?
* Exchange rate risk
* Exchange rate and interest rate risk
* Credit risk
* Exchange rate and credit risk

NO.104 Which one of the following four statements regarding the basic Net Interest Income model is INCORRECT?
* Assets and liabilities have the same interest rate sensitivities.
* Effective repricing date can be different than contractual repricing.
* The amount of intermediated funds can be a function of interest rate levels.
* Net interest income risk does not address the impact of changing interest rates on bank equity value.

NO.105 Bank Sigma has an opportunity to do a securitization deal for a credit card company, but has to retain a portion

of the residual risk of the deal with an estimated VaR of $8 MM. Its fees for the deal are $2 MM, and the

short-term financing costs are $600,000. What would be the RAROC for this transaction?
* 25%
* 17.5%
* 33%
* 12%

NO.106 Which one of the following four statements about planning for the operational risk framework is

INCORRECT?
* Planning for the operational risk framework involves setting clear goals, realistic milestones and

achievable deliverables that add value.
* An operational risk framework is a complex and evolving challenge, and to keep its development under

control it is important to apply strong project management skills to the design and implementation of

each new element.
* Planning for the operational risk framework suggests that short-term planning and focus on immediate

benefits is strongly preferred to the long-term planning approach.
* Once the elements of an operational risk framework are up and running, they need to be monitored to

ensure they maintain their integrity and do not deteriorate over time.

NO.107 An associate from the finance group has been identified as an operational risk coordinator (ORC) for her department. To fulfill her ORC responsibilities the associate will need to:

I. Provide main communication contact with operational risk department

II. Provide main reporting contact with audit department

III. Coordinate collection of key risk indicators in her area

IV. Coordinate training and awareness activities in her area
* I, II
* II, III, IV
* I, II, III
* I, III, IV

An operational risk coordinator (ORC) needs to provide the main communication contact with the operational risk department (I), coordinate the collection of key risk indicators in her area (III), and coordinate training and awareness activities in her area (IV). The main reporting contact with the audit department (II) is not typically an ORC responsibility.References:Operational risk coordinator responsibilities as outlined in Financial Risk and Regulation documents.

NO.108 Foreign exchange rates are determined by various factors. Considering the drivers of exchange rates, which one of the following changes would most likely strengthen the value of the USD against other foreign currencies?
* The expected US inflation rate increases
* The global demand for US products decreases
* The economic performance in the US weakens
* The US current account surplus increases

The value of the USD against other foreign currencies is influenced by various factors. An increase in the US current account surplus (D) would likely strengthen the value of the USD. This is because a current account surplus indicates that the US is exporting more goods and services than it is importing, leading to higher demand for the USD by foreign buyers who need it to pay for US exports. This increased demand for the USD relative to other currencies results in an appreciation of the USD.

NO.109 Which of the following statements presents an advantage of using risk and control self-assessments (RCSA) in the operational risk framework?

I. RCSA provides very accurate scoring of risks and controls due to its subjective nature.

II. RCSA program provides insight into risks that exist in a firm, but that may or may not have occurred before.

III. RCSA program can produce biased but transparent operational risk reporting.

IV. RCSA program allows each department to take ownership of its own risks and controls.
* I and III

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

Risk and control self-assessments (RCSA) have several advantages:

* They provide insight into risks that exist in a firm but may not have occurred before (II).

* They allow each department to take ownership of its own risks and controls (IV). However, RCSA may not always provide very accurate scoring of risks and controls due to its subjective nature (I), and while it can produce biased operational risk reporting, the primary advantage is the transparency it offers, not the bias (III).

NO.110 Forward rate agreements (FRA) are:
* Exchange traded derivative contracts that allow banks to take positions in forward interest rates.
* OTC derivative contracts that allow banks and customers to obtain the risk/reward profile of long-term

interest rates by relying on long-term funding.
* Exchange traded derivative contracts that allow banks to take positions in future exchange rates.
* OTC derivative contracts that allow banks to take positions in forward interest rates.

NO.111 Which one of the following statements is an advantage of using implied volatility as an input when calculating VaR?
* Implied volatility assumes volatilities are constant which makes it easy to implement in models.
* Current market data is used to determine implied volatilities, which makes them forward looking measures
* Implied volatilities are better at predicting actual volatilities
* Loss probabilities from the standard normal distribution are used to compute implied volatilities, which makes it easy to compute the.

Implied volatility is an estimate of the volatility of a security’s price derived from market prices of options.

One of the key advantages of using implied volatility in VaR calculations is its forward-looking nature.

* Forward-Looking: Implied volatility reflects the market’s expectations of future volatility. It is derived from the prices of options, which incorporate the collective market view on future price fluctuations.

* Current Market Data: Since implied volatility is based on current market prices, it adjusts to new information more quickly than historical volatility measures, making it a more timely indicator of risk.

Using implied volatility can provide a more accurate and responsive measure of risk, especially in dynamic market conditions.

References

* How Finance Works.pdf, p. 232

NO.112 Which of the following are the most common methods to increase liquidity in stressed conditions?

I. Selling or securitizing assets.

II. Obtaining additional credit lines.

III. Securing a better credit rating.
* I
* I, II

* I, II, III
* II, III
* I. Selling or securitizing assets:

* This is a common method to quickly generate liquidity during stressed conditions by converting non-liquid assets into cash.

* II. Obtaining additional credit lines:

* This method provides immediate access to additional funds when required, enhancing liquidity.

* III. Securing a better credit rating:

* While important for long-term financial health, this is not a direct method to increase liquidity in stressed conditions.

Thus, the most common methods to increase liquidity in stressed conditions are selling or securitizing assets and obtaining additional credit lines.

References:These methods are standard practices as detailed in the financial risk and regulation documentation, and they are widely recognized strategies for managing liquidity under stress.

Please refer to the provided financial documentation for further verification and detailed explanations .

NO.113 Bank Milo has $4 million in cash and $5 million in loans coming due tomorrow with an expected default rate

of 1%. The proceeds will be deposited overnight. The bank owes $ 9 million on a securities purchase that

settles in two days and pays off $8 million in commercial paper in three days that is not expected to renew. On

what days does the bank face negative cumulative liquidity?
* Day 3 only.
* Days 2 and 3.
* Day 2 only.
* Days 1, 2 and 3.

NO.114 Which one of the following four exotic option types has another option as its underlying asset, and as a result of its construction is generally believed to be very difficult to model?
* Spread options
* Chooser options
* Binary options
* Compound options
Compound options are exotic options that have another option as their underlying asset, making them particularly complex to model. The complexity arises because the value of a compound option is derived from another option, which is already a derivative with its own set of valuation challenges. This nested structure introduces multiple layers of volatility and dependencies that are difficult to predict and model accurately using standard option pricing models.

To prepare for the GARP 2016-FRR exam, candidates are encouraged to study a wide range of materials, including textbooks, online resources, and practice exams. GARP also offers a variety of study materials and courses for candidates who want extra support. Candidates who pass the exam will earn the prestigious FRR certification, which is recognized by financial institutions around the world as a mark of expertise in risk management.

Tested Material Used To 2016-FRR: https://www.testkingfree.com/GARP/2016-FRR-practice-exam-dumps.html