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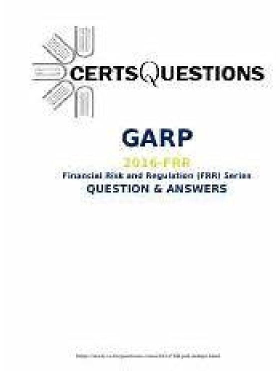

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The goal of 2016-FRR preparation material is to help applicants prepare for the Financial Risk and Regulation (FRR) Series certification exam by providing them with the Actual 2016-FRR Exam Questions they need to pass the exam. This Financial Risk and Regulation (FRR) Series (2016-FRR) study material is in the form of practice tests and 2016-FRR PDF that thoroughly covers the content of the test.

The Global Association of Risk Professionals (GARP) is a non-profit organization that is committed to promoting and advancing the risk profession worldwide. One of the primary ways that GARP accomplishes this goal is through its certification program, which includes the Financial Risk and Regulation (FRR) Series. The FRR Series is designed to provide professionals with a deep understanding of financial risk management and regulatory requirements.

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GARP Financial Risk and Regulation (FRR) Series Sample Questions (Q74-Q79):

NEW QUESTION # 74
A corporate bond gives a yield of 6%. A same maturity government bond yields 2%. The probability of the corporate bond defaulting is 2.5%. In case of default, investors expect to lose 60% of their investment. The risk premium in the credit spread is:

- A. 2.5%
- B. 4.5%
- C. 1.5%
- D. 0.5%

Answer: B

Explanation:
To determine the risk premium, we first calculate the credit spread. The yield difference between the corporate bond and the government bond gives the credit spread: Corporate bond yield = 6% Government bond yield = 2%
Credit spread = Corporate bond yield - Government bond yield Credit spread = 6% - 2% = 4%.
Next, we account for the expected loss. The expected loss is the probability of default times the loss given default: Probability of default = 2.5% Loss given default = 60% Expected loss = 0.025 * 0.60 = 0.015 or 1.5%.
Risk premium = Credit spread - Expected loss Risk premium = 4% - 1.5% = 2.5%.
Therefore, the risk premium included in the credit spread is 2.5%.

NEW QUESTION # 75
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 interest rate should Alpha Bank charge on the no-payment loan to Delta Industrial Machinery Corporation?

- A. 8%
- B. 9%
- C. 10%
- D. 12%

Answer: C

Explanation:
To determine the appropriate interest rate to charge, Alpha Bank needs to cover the risk-free rate, the spread, and the expected loss due to default. The formula used is: Risk-free rate + Spread + (Probability of Default x Loss Given Default). Substituting the given values: 6% (risk-free rate) + 3% (spread) + (0.02 x 0.50) = 6% + 3% + 1% = 10%.

NEW QUESTION # 76
BetaFin has decided to use the hybrid RCSA approach because it believes that it fits its operational framework. Which of the following could be reasons to use the hybrid RCSA method?
I. BetaFin has previously created series of RCSA workshops, and the results of these workshops can be used to design the questionnaires.
II. BetaFin believes that using the questionnaire approach should be more useful.
III. BetaFin had used the questionnaire approach successfully for certain businesses and the workshop approach for others.
IV. BetaFin had already implemented a sophisticated RCSA IT-system.

- A. II, III, and IV
- B. I and III
- C. I and II

- D. III and IV

Answer: B

Explanation:
BetaFin decided to use the hybrid RCSA approach because:
* They have previously created a series of RCSA workshops, and the results of these workshops can be used to design the questionnaires (I).
* They have successfully used the questionnaire approach for certain businesses and the workshop approach for others (III).

NEW QUESTION # 77
Banks duration match their assets and liabilities to manage their interest risk in their banking book. A bank has $100 million in interest rate sensitive assets and $100 million in interest rate sensitive liabilities. Currently the bank's assets have a duration of 5 and its liabilities have a duration of 2. The asset-liability management committee of the bank is in the process of duration-matching. Which of the following actions would best match the durations?

- A. Decrease the duration of liabilities by 1 and increase the duration of assets by 1.
- B. Decrease the duration of liabilities by 1 and decrease the duration of assets by 1.
- C. Increase the duration of liabilities by 2 and increase the duration of assets by 1.
- D. Increase the duration of liabilities by 2 and decrease the duration of assets by 1.

Answer: D

Explanation:
To match the durations of assets and liabilities, the bank needs to adjust the durations so that they are equal.
Currently, the assets have a duration of 5 and the liabilities have a duration of 2.
One way to match the durations is to increase the duration of liabilities by 2 (making it 4) and decrease the duration of assets by 1 (making it 4). This results in both the assets and liabilities having the same duration, thereby matching them.

NEW QUESTION # 78
Which one of the following four option types has two strike prices?

- A. Asian options
- B. Range options
- C. Shout options
- D. American options

Answer: B

Explanation:
Range options, also known as "corridor options" or "double no-touch options," have two strike prices. The payoff for a range option depends on the price of the underlying asset remaining within a specified range between the two strike prices during the life of the option. This dual strike price structure is what distinguishes range options from other types of options.

NEW QUESTION # 79
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