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GARP Financial Risk and Regulation (FRR) Series Sample Questions (Q274-Q279):

NEW QUESTION # 274
Under the Basel II Accord, when using the Basic Indicator Approach to calculate its operational risk capital, a bank multiplies how many years of gross income by what percentage?

- A. One year multiplied by 5%
- B. Four years multiplied by 20%
- C. Three years multiplied by 15%
- D. Two years multiplied by 10%

Answer: C

Explanation:
Comprehensive and Detailed In-Depth Explanation:
The Basic Indicator Approach (BIA) under Basel II is a simple method to calculate operational risk capital. It requires banks to hold capital equal to 15% of the average annual gross income over the previous three years, where gross income is defined as net interest income plus net non-interest income (excluding extraordinary items). Only positive gross income years are included in the average.
The formula is:
Operational Risk Capital = 15% × (Average Gross Income over 3 years).
This is explicitly stated in the Basel II framework, making C (three years multiplied by 15%) correct. Other options do not align with the BIA requirements.
Reference:BCBS, "Basel II: International Convergence of Capital Measurement and Capital Standards," June 2006, para. 649-650; GARP FRR Study Notes, Operational Risk Section.

NEW QUESTION # 275
A bank customer chooses a mortgage with low initial payments and payments that increase over time because the customer knows that she will have trouble making payments in the early years of the loan. The bank makes this type of mortgage with the same default assumptions uses for ordinary mortgages, thus underestimating the risk of default and becoming exposed to:

- A. Moral hazard
- B. Sampling bias
- C. Adverse selection
- D. Banking speculation

Answer: C

NEW QUESTION # 276
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 decrease the duration of assets by 1.
- B. Increase the duration of liabilities by 2 and decrease the duration of assets by 1.
- C. Decrease the duration of liabilities by 1 and increase the duration of assets by 1.
- D. Increase the duration of liabilities by 2 and increase the duration of assets by 1.

Answer: B

NEW QUESTION # 277
Which of the following are among the main uses of risk reports?
I. Identification of exceptional situations that require managerial attention.
II. Display the relative risk among different trades.
III. Specify how RAROC will be maximized within the bank.
IV. Estimate the overall risk levels of the bank.

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

Answer: A

Explanation:
Risk reports are used for:
* Identification of exceptional situations that require managerial attention: Highlighting issues that need immediate response.
* Display the relative risk among different trades: Providing a comparative view of risk levels.
* Estimate the overall risk levels of the bank: Summarizing the total risk exposure.
These functions are essential for effective risk management within a financial institution.

NEW QUESTION # 278
A trader for EtaBank wants to take a leveraged position in Collateralized Debt Obligations. These CDOs can be used in a repurchase transaction at a 20% haircut. Starting with $100 worth of CDOs, which one of the following four positions would completely utilize the available leverage?

- A. The trader can buy $100 in CDO's, and repo the CDO's to get back $80, less interest.
- B. The trader can buy $100 in CDO's, and repo the CDO's to get back $20, plus interest.
- C. The trader can buy $100 in CDO's, and repo the CDO's to get back $100, less interest.
- D. The trader can buy $100 in CDO's, and repo the CDO's to get back $60, plus interest.

Answer: A

NEW QUESTION # 279
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