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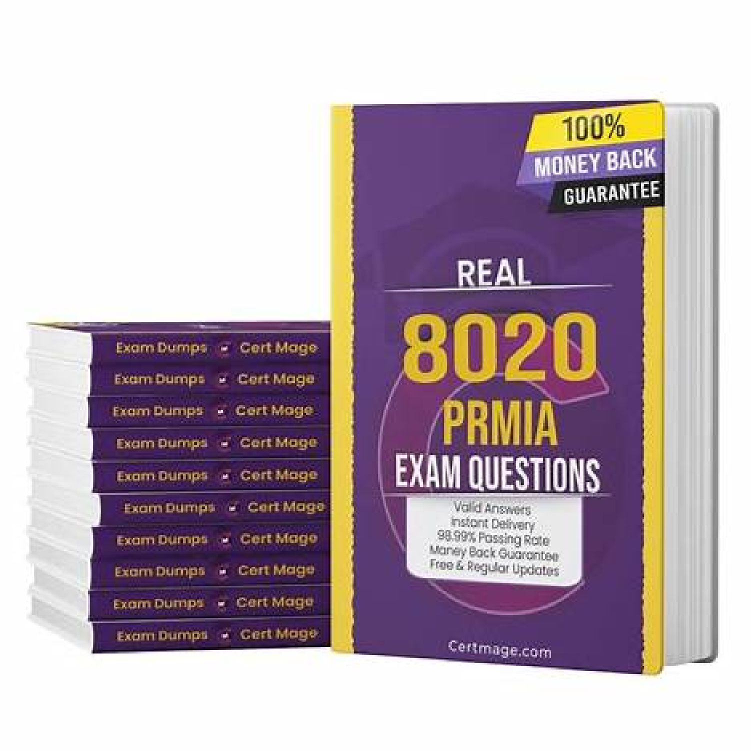

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PRMIA ORM Certificate - 2023 Update Sample Questions (Q42-Q47):

NEW QUESTION # 42
When a single operational risk event leads to losses in multiple business lines or impacts across several event types, how should these linked losses be treated?

- A. Each business line should take it's own discretion as to how the losses are treated.
- B. Either allocate entire loss to the business line for which the loss is greatest or pro-rate the loss across the affected business line.
- C. Pro-rate the loss across the affected business line.
- D. Allocate entire loss to the business line for which the loss is greatest.

Answer: B

Explanation:
Step 1: Understanding Linked Losses in Operational Risk
In operational risk events, a single event can impact multiple business lines or event types (e.g., IT failure affecting retail banking and wealth management).
Proper loss attribution is important for accurate risk reporting and regulatory compliance under Basel III.
Step 2: Why Option C is Correct
Basel III and PRMIA guidance allow institutions flexibility in how to allocate linked losses:
Entire loss can be allocated to the business line with the largest loss impact for simplified reporting.
Loss can be pro-rated across affected business lines for more accurate attribution.
Step 3: Why the Other Options Are Incorrect
Option A ("Allocate entire loss to the business line with the greatest loss") → Partially correct, but not always required-some firms prefer pro-rating.
Option B ("Pro-rate the loss") → Partially correct, but allocating to the largest impacted business line is also acceptable.
Option D ("Each business line decides how to treat losses") → Incorrect because loss allocation should follow a defined policy, not business line discretion.
PRMIA Risk Reference Used:
Basel III Operational Risk Framework - Discusses loss attribution for multi-line impact events.
PRMIA Loss Event Management Guidelines - Supports both full allocation and pro-rating.
Final Conclusion:
Firms can either allocate the full loss to the most impacted business line or pro-rate it across affected lines, making Option C the correct answer.

NEW QUESTION # 43
Which of the following is a correct statement about control rating scales?

- A. A control rating scale should consider neither control effectiveness or control performance.
- B. A control rating scale should consider control effectiveness but not control performance.
- C. A control rating scale should consider both control effectiveness and control performance.
- D. They are enhanced by the use of software that includes inherent risk.

Answer: C

Explanation:
Definition of Control Rating Scales
Control rating scales measure the effectiveness and performance of risk management controls.
They help organizations evaluate control strength and identify weaknesses.
Key Components
Control effectiveness → Measures how well the control mitigates risks.
Control performance → Assesses whether the control operates as designed in practice.
Why Answer C is Correct
Both effectiveness and performance are crucial for assessing control reliability.
A control may be designed effectively but fail in execution, making both factors essential.
Why Other Answers Are Incorrect
Option
Explanation:
A . They are enhanced by the use of software that includes inherent risk.
Incorrect - Software can improve ratings, but control scales are based on evaluation criteria, not just software tools.
B . A control rating scale should consider control effectiveness but not control performance.
Incorrect - Ignoring performance could lead to misjudging actual control reliability.
D . A control rating scale should consider neither control effectiveness nor control performance.
Incorrect - This would render the control rating scale useless.
PRMIA Reference for Verification

PRMIA Governance and Control Framework
Basel Operational Risk Management Guidelines

NEW QUESTION # 44
Ideally, which of the following should be completed as part of the risk assessments of service providers?

- A. Onsite visits are not advantageous for understanding the third party's risks and control environment.
- B. An assessment of a third party should not include its compliance and risk infrastructure, financials, business strategy and operating history.
- C. An assessment of a third party should include its compliance and risk infrastructure, financials, business strategy and operating history.
- D. A review of the pay levels of the staff supporting the service.

Answer: C

Explanation:
Third-Party Risk Management (TPRM)
PRMIA highlights the importance of conducting thorough due diligence on third-party vendors and service providers.
This includes evaluating compliance programs, risk management frameworks, financial stability, strategic objectives, and operational history.
Key Areas of Third-Party Risk Assessment
Compliance and Risk Infrastructure → Ensures that the provider meets regulatory and security requirements.
Financial Health → Determines whether the provider has the financial stability to support long-term service delivery.
Business Strategy → Helps assess alignment with the organization's risk appetite and goals.
Operating History → Evaluates experience and reliability in delivering services.
Why Other Answers Are Incorrect
Option
Explanation:
B . An assessment of a third party should not include its compliance and risk infrastructure, financials, business strategy, and operating history.
Incorrect - Ignoring these critical factors increases the risk of working with an unreliable vendor.
C . Onsite visits are not advantageous for understanding the third party's risks and control environment.
Incorrect - Onsite visits are highly valuable as they provide first-hand insights into operational controls. PRMIA encourages risk managers to conduct site visits.
D . A review of the pay levels of the staff supporting the service.
Incorrect - Employee salaries are not a primary risk factor in vendor assessments. The focus should be on the vendor's security, compliance, and operational risks.
PRMIA Reference for Verification
PRMIA Third-Party Risk Management (TPRM) Guidelines - Details best practices for vendor risk assessments.
Basel Principles on Outsourcing and Third-Party Risk - Provides regulatory guidance on evaluating third-party service providers.

NEW QUESTION # 45
For credit risk losses containing operational risk elements that have been historically included in an organizations' credit risk database how should the loss amount be treated?

- A. The entire loss amount is treated as operational risk.
- B. The loss amount is split into credit and operational risk components.
- C. The entire loss amount is treated as credit risk, but the loss is entered as a memorandum within the operational loss database and not used for capital modeling purposes.
- D. The entire loss amount is treated as credit risk

Answer: B

Explanation:
Understanding Credit Risk and Operational Risk Overlap
In some cases, credit risk losses contain elements of operational risk, such as fraud, documentation errors, or IT failures affecting credit transactions.
Basel II and III frameworks require institutions to distinguish between pure credit risk losses and operational risk components within those losses.

Treatment of Losses
The credit-related portion is accounted for under credit risk capital calculations.
The operational risk portion (e.g., fraud-related losses) should be classified separately and included in operational risk databases for risk measurement.
Why Answer C is Correct
Basel III and PRMIA recommend a clear split between credit risk and operational risk components to ensure accurate risk modeling.
If operational risk elements are ignored, an organization may underestimate its true operational risk exposure.
Why Other Answers Are Incorrect
Option
Explanation:
A . The entire loss amount is treated as credit risk.
Incorrect - This ignores operational risk components that should be accounted for separately.
B . The entire loss amount is treated as operational risk.
Incorrect - Credit risk losses are typically dominant in lending-related losses and should not be fully classified as operational risk.
D . The entire loss amount is treated as credit risk, but the loss is entered as a memorandum within the operational loss database and not used for capital modeling purposes.
Incorrect - The operational risk portion must be considered for capital modeling, not just recorded as a memo.
PRMIA Reference for Verification
Basel II & III Guidelines on Credit and Operational Risk Integration
PRMIA Operational Risk Framework

NEW QUESTION # 46
Which of the following are the most relevant ways a firm can ensure they are in line with consumer protection?

- A. This risk cannot be managed.
- B. Engage with consumers once there are enough complaints.
- C. Add a consumer protection section to all reports.
- D. Treat customers fairly, place customer interests ahead of its own and keep promises to customers

Answer: D

Explanation:
Definition of Consumer Protection in Risk Management
Consumer protection ensures ethical business practices, transparency, and regulatory compliance.
It builds trust with customers and reduces legal and reputational risks.
Key Principles of Consumer Protection
Treating customers fairly → Ensures honest and ethical financial services.
Prioritizing customer interests → Prevents conflicts of interest and unfair treatment.
Honoring commitments → Strengthens customer confidence and regulatory trust.
Why Answer C is Correct
Following these principles ensures regulatory compliance, customer satisfaction, and risk mitigation.
Why Other Answers Are Incorrect
Option
Explanation:
A . Engage with consumers once there are enough complaints.
Incorrect - Proactive engagement is essential; waiting for complaints is a reactive and poor risk management approach.
B . Add a consumer protection section to all reports.
Incorrect - Documentation alone does not ensure fair treatment; actions matter more.
D . This risk cannot be managed.
Incorrect - Consumer protection risks can and should be actively managed.
PRMIA Reference for Verification
PRMIA Consumer Protection & Fair Treatment Standards
Financial Conduct Authority (FCA) Consumer Duty Guidelines

NEW QUESTION # 47
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