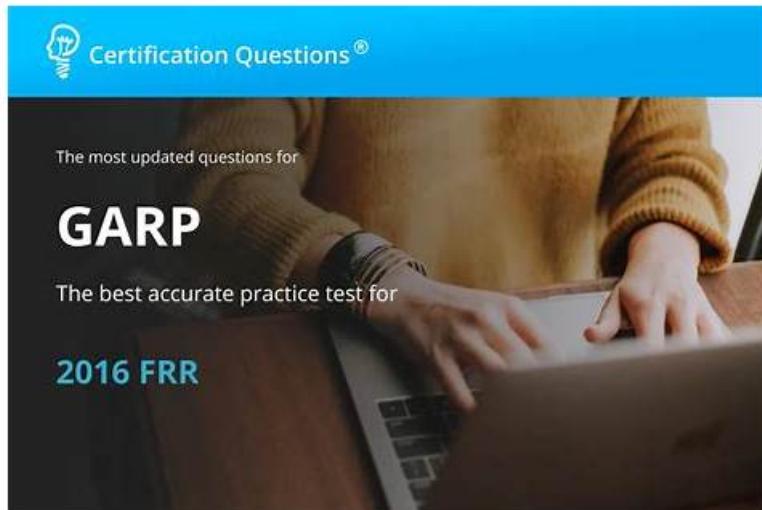


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GARP Financial Risk and Regulation (FRR) Series Sample Questions (Q60-Q65):

NEW QUESTION # 60

Which one of the following four regulatory drivers for operational risk management includes risk and control requirements for financial statements in the United States?

- A. Solvency II
- B. The Sarbanes-Oxley Act
- C. Basel II Accord
- D. The Markets in Financial Instruments Directive

Answer: B

Explanation:

The Sarbanes-Oxley Act includes risk and control requirements for financial statements in the United States.

It mandates strict reforms to improve financial disclosures from corporations and prevent accounting fraud.

This Act directly impacts operational risk management by setting standards for all U.S. public company boards, management, and public accounting firms.

NEW QUESTION # 61

Which one of the following is a typical source of funding for a commercial bank's assets?

- A. Consumer deposits
- B. Commercial lending
- C. Commodities markets
- D. Cash

Answer: A

Explanation:

Comprehensive and Detailed In-Depth Explanation:

Consumer deposits (e.g., savings, checking accounts) are a primary and stable source of funding for commercial banks, used to finance assets like loans and investments. This aligns with the traditional banking model of taking deposits and lending them out, as emphasized in Basel III's liquidity rules (e.g., Net Stable Funding Ratio). Option B (cash) is an asset, not a funding source. Option C (commercial lending) generates revenue but isn't a funding mechanism. Option D (commodities markets) may provide speculative income but isn't a typical funding source. GARP's FRR materials confirm deposits as the cornerstone of bank funding.

Reference:BCBS, "Basel III: The Net Stable Funding Ratio," October 2014, para. 10-15; GARP FRR Study Notes, Liquidity Risk Section.

NEW QUESTION # 62

Mega Bank has \$100 million in deposits on which it pays 3% interest, and \$20 million in equity on which it pays no interest. The loan portfolio of \$120 million earns an average rate of 10%. If the rates remain the same, what is the net interest income of Mega Bank?

- A. \$5 million per year
- B. \$9 million per year
- C. \$12 million per year
- D. \$2 million per year

Answer: B

Explanation:

* Interest Expense on Deposits:

* Deposits = \$100 million, interest rate = 3%

* Interest expense = \$100 million * 0.03 = \$3 million

* Interest Income from Loans:

* Loan portfolio = \$120 million, interest rate = 10%

* Interest income = \$120 million * 0.10 = \$12 million

* Net Interest Income Calculation:

* Net interest income = Interest income - Interest expense = \$12 million - \$3 million = \$9 million ReferencesSource: How Finance Works

NEW QUESTION # 63

Alpha Bank determined that Delta Industrial Machinery Corporation has 2% chance 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 of 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. 10%

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

Answer: A

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 # 64

US-based BetaBank have accumulated Japanese yen, Japanese government bonds, options on Japanese yen, and positions in commodities that have a positive correlation with yen. Which one of the four following non- statistical risk measures could be used to evaluate the BetaBank's exposure to the Japanese economy?

- A. Position sensitivities
- B. Position volatility
- C. Position turnover
- D. Position concentrations

Answer: D

Explanation:

To evaluate BetaBank's exposure to the Japanese economy, we should consider measures that reflect the bank's positions and their potential sensitivity to economic changes in Japan:

* Position Turnover:

* This measures how frequently positions are changed or traded, which does not directly indicate exposure to economic conditions.

* Position Concentrations:

* This indicates how concentrated the bank's positions are in certain assets or markets. High concentration in Japanese assets (yen, Japanese government bonds, etc.) would indicate high exposure to the Japanese economy.

* Position Volatility:

* This measures how much the value of positions fluctuates, which can indicate risk but does not specifically measure economic exposure.

* Position Sensitivities:

* This measures how sensitive positions are to changes in underlying factors, such as interest rates or exchange rates. This could also be relevant but does not directly indicate exposure to the economy as a whole.

Thus, position concentrations are a key measure to evaluate BetaBank's exposure to the Japanese economy.

References

Source: How Finance Works

NEW QUESTION # 65

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