

100% Money Back
Guarantee

Vendor:GARP

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and Regulation (ICBRR)

Version:Demo

QUESTION 1

A bank customer expecting to pay its Brazilian supplier BRL 100 million asks Alpha Bank to buy Australian dollars and sell Brazilian reals. Alpha bank does not hold Brazilian reals so it asks for a quote to buy Brazilian reals in the market. The market rate is 100. The bank quotes a selling rate of 101 to its customer, sells the reals, and receives AUD 1,010,000. To perform foreign exchange matched position trading, the banks should

- A. Immediately buy the real at the market rate of 100 and pay AUD 1,000,000.
- B. Immediately buy the real above the market rate of 105 and pay AUD 1,050,050.
- C. Immediately sell the real at the market rate of 100 and receive AUD 1,000,000.
- D. Immediately sell the real above the market rate of 105 and receive AUD 1,050,050.

Correct Answer: A

QUESTION 2

In the United States, during the second quarter of 2009, transactions in foreign exchange derivative contracts comprised approximately what proportion of all types of derivative transactions between financial institutions?

- A. 2%
- B. 7%
- C. 25%
- D. 43%

Correct Answer: B

QUESTION 3

Which of the following statements about a bank's behavior regarding Risk Adjusted Return on Capital (RAROC) is correct?

- A. A bank should always seek to maximize their overall RAROC.
 - II. A bank should consider investing in a business even with negative RAROC if it increases the RAROC of the bank as a whole.
 - III. A bank should minimize its overall RAROC by controlling the absolute and relative amount of risk of its businesses.
 - IV. A bank should maximize its RAROC by always investing in a new business that maximizes the RAROC for that business unit.
- B. I and II
 - C. II and IV

D. I, II and III

E. II, III, and IV

Correct Answer: A

QUESTION 4

Which one of the following four statements about preferred shares is INCORRECT?

A. Preferred shares refer to a class of securities that is a cross between equity and debt.

B. Preferred shares represent residual of a corporation after its other liabilities have been paid.

C. Preferred shares are subordinated to debt.

D. Preferred shares can be perpetual or have maturities far exceeding debt maturities.

Correct Answer: B

QUESTION 5

Which one of the following four statements correctly defines a non-exotic call option?

A. A call option gives the call option buyer the obligation, but not the right, to buy the underlying instrument at a known price in the future.

B. A call option gives the call option buyer the obligation, but not the right, to sell the underlying instrument at a known price in the future

C. A call option gives the call option buyer the right, but not the obligation, to buy the underlying instrument at a known price in the future

D. A call option gives the call option buyer the right, but not the obligation, to sell the underlying instrument at a known price in the future

Correct Answer: C

QUESTION 6

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?

A. Day 3 only.

B. Days 2 and 3.

C. Day 2 only.

D. Days 1, 2 and 3.

Correct Answer: B

QUESTION 7

A risk manager analyzes a long position with a USD 10 million value. To hedge the portfolio, it seeks to use options that decrease JPY 0.50 in value for every JPY 1 increase in the long position. At first approximation, what is the overall exposure to USD depreciation?

- A. His overall portfolio has the same exposure to USD as a portfolio that is long USD 5 million.
- B. His overall portfolio has the same exposure to USD as a portfolio that is long USD 10 million.
- C. His overall portfolio has the same exposure to USD as a portfolio that is short USD 5 million.
- D. His overall portfolio has the same exposure to USD as a portfolio that is short USD 10 million.

Correct Answer: A

QUESTION 8

A bank has a large number of auto loans and would prefer to sell them to raise cash for more funding. However, selling individual auto loans is difficult. What could the bank do?

- A. Package the loans into a securitized vehicle and sell the low risk portion of the portfolio.
- B. Obtain a stronger credit rating so that the bank could borrow at a cheaper rate.
- C. Set up a marketing team to sell individual loans to investors.
- D. Merge with another bank.

Correct Answer: A

QUESTION 9

A credit associate extending a loan to an obligor suspects that the obligor may change his behavior after the loan has been originated. The obligor in this case may use the loan proceeds for purposes not sanctioned by the lender, thereby increasing the risk of default. Hence, the credit associate must estimate the probability of default based on the assumptions about the applicability of the following tendency to this lending situation:

- A. Speculation
- B. Short bias
- C. Moral hazard
- D. Adverse selection

Correct Answer: C

QUESTION 10

Financial regulators in a European country are considering banning trading in highly complex derivative instruments that are not settled through a centralized clearinghouse.

This ban can result in:

- A. The value of the country's currency dropping
 - II. Counterparties involved in trading of these derivative instruments failing to fulfill their obligations
 - III. The business model relying on these instruments failing
 - IV. Certain activities becoming illegal
- B. I, II
- C. II, III
- D. I, IV
- E. II, III, IV

Correct Answer: D

QUESTION 11

Which of the following assets on the bank's balance sheet has greatest endogenous liquidity risk?

- A. A 2-year U.S treasury bond
- B. A 1-week corporate loan with a AAA rated company
- C. A 10-year U.S treasury bond
- D. A 3-year subprime mortgage

Correct Answer: D

QUESTION 12

Which of the following measure describes the symmetry of a statistical distribution?

- A. Mean
- B. Standard deviation
- C. Skewness
- D. Kurtosis

Correct Answer: C

