

PRMIA

Exam 8004

**PRM Certification - Exam IV: Case Studies; Standards: Governance,
Best Practices and Ethics**

Version: 6.0

[Total Questions: 110]

Question No : 1

Which of the following should NOT be part of the Risk Management Infrastructure?

- A. Define the organization's definition of risk management as articulated by the Board in clear and uncertain terms
- B. Include financial risk management, compliance and external reporting and, to the extent that resources allow, should exclude legal or accounting
- C. Be independently staffed and report to an employee who is on the Executive Committee (Operating Committee) but who is NOT a business unit leader
- D. Review continually the application of the Principles of Good Governance to the Risk Management Infrastructure, financial accounting and reporting infrastructure and the organization as a whole

Answer: D

Question No : 2

Unlike the case at Barings Bank, National Australia Bank:

- A. Had a risk management infrastructure that was credited with doing its' job well, despite the losses
- B. Was not dealing in derivatives
- C. Had a Board of Directors that was unaware of the true nature of trading activities
- D. Had a separation of duties between trading and back office

Answer: D

Question No : 3

Which of the following was not received by Northern Rock as official support from the UK banking and government authorities?

- A. A covert money market support operation designed to cover up the difficulties Northern Rock was facing
- B. The Bank of England's role as Lender-Of-Last-resort was activated at a penalty interest rate of 150 basis points above the Bank Rate
- C. The UK government offered to guarantee all existing and new retail deposits, and to most other creditors

D. The Bank of England provided an additional unlimited facility secured on the collateral of all Northern Rock assets

Answer: A

Question No : 4

When considering the performance of Northern Rock within its peer group of banks, which of the following is not correct?

- A. Only a few months previously it had reported record profits.
- B. The quality of its' assets was never in question.
- C. For many years it was regarded as a star-performer in the financial markets.
- D. Its' loan loss record was poor by industry standards.

Answer: D

Question No : 5

National Australia Bank and Barings cases are similar in that:

- A. Losses kept increasing while rogue trader(s) hid their positions
- B. The back offices had inadequate procedures
- C. Both A and B
- D. None of the above

Answer: C

Question No : 6

According to the Northern Rock Case Study, what is Forced Insolvency?

- A. The bank is insolvent in that the current value of its assets (measured at book value) is less than the value of its liabilities; thus even if the bank were to liquidate all of its assets it would not be able to repay all depositors and other creditors
- B. The bank is legally solvent but if, because it cannot fund its operations, it is forced to liquidate assets it could do so only at less than nominal values (fire sale) and this would

make it legally insolvent (value of assets falls below those of liabilities)

C. The bank is legally solvent but its current funding costs (which are likely to continue) exceed the average rate of return on its assets and hence it would soon become insolvent as it would be making losses and would eventually exhaust its equity capital

D. The bank is solvent in that the current value of its assets (measured at book value) is more than the value of its liabilities; so even if the bank were to liquidate all of its assets it would be able to repay all depositors and other creditors

Answer: B

Question No : 7

The financial intermediary services provided by Fannie Mae and Freddie Mac were designed to

A. Offer loans directly to the consumer

B. Compete directly with banks in selling mortgaged to would-be home owners

C. Repackage mortgage loans made by banks and sell them on to investors as asset backed securities

D. Buy mortgage-backed loans for banks and keep them all on their books, using them as collateral for the US government to borrow

Answer: C

Question No : 8

Several clients, including Procter and Gamble took legal action against Bankers Trust, claiming Bankers Trust

A. sold them derivative products without properly advising them of the relevant risks

B. did not honour its contractual obligations to pay

C. was involved in accounting fraud

D. hid profits

Answer: A

Question No : 9

Up until 2006, which of the following was not a primary driver for Washington Mutual's earning?

- A. Lending to consumers and small businesses.
- B. Deposit taking activities which generated net interest income.
- C. The provision of fee based services to its customers.
- D. Complex derivative trades based on volatility indices.

Answer: D

Question No : 10

TMFI's internal procedures and management were

- A. fully aware of the uninsured risks Fortress Re were taking
- B. absolutely unaware of their uninsured liabilities
- C. aware that they had some uninsured liabilities but thought they had enough capital to withstand any uninsured losses
- D. None of the above

Answer: B

Question No : 11

The problems at Bankers Trust can best be characterized as failures related to:

- A. Market Risk
- B. Credit Risk
- C. Operational and Regulatory Compliance Risk
- D. All of the Above

Answer: C

Question No : 12

What was the most important loss for Bankers Trust?

- A. Money due to unfavourable market moves
- B. Loss of its' reputation due to actions seen as detrimental to their clients
- C. Loss of market share due to their licenses being revoked
- D. Time spent on legal proceedings in courts

Answer: B

Question No : 13

MGRM's losses due to "stacking" started to increase when

- A. the oil market went from contango to backwardation
- B. the oil market went from backwardation to contango
- C. the oil market went from weak backwardation to strong backwardation
- D. the oil market went from strong contango to weak contango

Answer: B

Question No : 14

Which of the following are PRMIA Governance Principles?

- I. Independence of Key Parties
 - II. Disclosure and Transparency
 - III. Internal Validation
 - IV. Solvency
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- A. I and II only
 - B. I, II and III only
 - C. I, II and IV only
 - D. All are PRMIA Governance Principles

Answer: A

Question No : 15

The hedging strategy employed by MG Refining & Marketing has been called:

- A. Dynamic hedging
- B. A stacked hedge
- C. A differential hedge
- D. Nothing because MG Refining & Marketing did not hedge its position

Answer: B

Question No : 16

For the sentence

"The organization should have at its disposal employees who have adequate _____, _____ and _____ to perform the tasks assigned to them",

Choose the correct combination of words from the following options:

- A. knowledge, skills, expertise
- B. experience, skills, previous successes
- C. risk appetite, knowledge, expertise
- D. track record, expertise, skills

Answer: A

Question No : 17

Which of the following best characterize the problems that developed at Bankers Trust?

- A. Volume growth at the expense of margin
- B. Excessive reliance on volatile and sophisticated derivatives
- C. A failure to try to protect their clients' interests
- D. Over exposure to the property market

Answer: C

Question No : 18

The Chief Risk Officer is responsible for the management of the Risk Management Infrastructure, and as such helps the Board define, and then implements throughout the organization, the risk appetite of the organization.

Which of the following is also the responsibility of the Chief Risk Officer?

- A.** Maintaining appropriate assurance measures to ensure that the Governance and Risk framework of the organization is effective, and, if any shortcomings are discovered, to escalate these to the Board so that remedial action can be taken in an appropriate and timely manner
- B.** ensuring that all employees understand the rules and regulations (both internal and external) with which they must comply and the implications, for them and for the organization, of non-compliance
- C.** Ensures that reporting of risk and governance-related matters are produced in a timely and accurate manner
- D.** Acts as sponsor for risk throughout the organization and ensures that a risk culture is implemented, and maintained

Answer: C

Question No : 19

Which of the following was not considered to be a positive outcome of the Northern Rock Case Study?

- A.** The role of the UK government and the possible underwriting of risks by tax-payers, and the general question of Moral Hazard
- B.** The reform of the Deposit Protection Scheme because of its internal inconsistencies
- C.** It emphasised the importance of effective governance arrangements within financial firms
- D.** The original successful business model had not stress tested sufficiently for the incidence of Low Probability, High Impact incidents

Answer: D

Question No : 20

The sensitivity analysis required under IFRS would have done what for China Aviation Oil?

- A.** Provided investors and analysts with insight into the dynamics of value changes, and the