

GARP Certification ICBRR

International Certificate in Banking Risk and Regulation (ICBRR)

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Question No : 1

In analyzing market option pricing dynamics, a risk manager evaluates option value changes throughout the entire trading day. Which of the following factors would most likely affect foreign exchange option values?

- I. Change in the value of the underlying
- II. Change in the perception of future volatility
- III. Change in interest rates
- IV. Passage of time

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

Answer: D

Question No : 2

For which one of the following four reasons do corporate customers use foreign exchange derivatives?

- I. To lock in the current value of foreign-denominated receivables
- II. To lock in the current value of foreign-denominated payables
- III. To lock in the value of expected future foreign-denominated receivables
- IV. To lock in the value of expected future foreign-denominated payables

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

Answer: D

Question No : 3

On January 1, 2010 the TED (treasury-euro dollar) spread was 0.9%, and on January 31, 2010 the TED spread is 0.4%. As a risk manager, how would you interpret this change?

- A.** The decrease in the TED spread indicates a decrease in credit risk on interbank loans.
- B.** The decrease in the TED spread indicates an increase in credit risk on interbank loans.
- C.** Increase in interest rates on both interbank loans and T-bills.
- D.** Increase in credit risk on T-bills.

Answer: A

Question No : 4

Short-selling is typically associated with the following risks:

- I. Potential for extreme losses
- II. Risk associated with the availability of shares to borrow
- III. Market behavior risk
- IV. Liquidity risk

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

Answer: D

Question No : 5

GammaBank estimates its monthly portfolio volatility at 5%.The portfolio's annual volatility is closest to which of the following?

- A. 8%
- B. 17%
- C. 30%
- D. 35%

Answer: B

Question No : 6

Which one of the following four factors typically drives the pricing of wholesale products?

- A. Marketing considerations
- B. Prevailing market price
- C. Long-term competitiveness
- D. Overall risk exposure

Answer: B

Question No : 7

Why do regulatory standards impose formulaic capital calculations for all of the banks activities?

I. If the banks use different models it is difficult for a regulator to compare results across banks.

II. By imposing standardized calculations regulators can make sure that banks are not missing key risks in their calculations.

III. By imposing standardized calculations regulators can make sure that banks do not use capital calculations to game the banking regulation system.

- A. I
- B. I,II

- C. II, III
- D. I, II, III

Answer: D

Question No : 8

According to Basel II what constitutes Tier 3 capital?

- A. Subordinated debt issues that pay interest.
- B. Debt capital that can only be used to support market risk in the trading book of the bank.
- C. Preference shares that confer on issuers the right to defer payment of a fixed dividend.
- D. Hybrid debt capital instruments that are similar to equity.

Answer: B

Question No : 9

Gamma Bank is operating in a highly volatile interest rate environment and wants to stabilize its net income by shifting the sources of its earnings from interest rate sensitive sources to less interest rate sensitive sources. All of the following strategies can help achieve this objective EXCEPT:

- A. Charge bank fees for underwriting loans
- B. Provide trust, asset management, and trading services to customers
- C. Extend different types of credit
- D. Originate more floating interest rate loans

Answer: D

Question No : 10

Which of the following statements about endogenous and external types of liquidity are accurate?

- I. Endogenous liquidity is the liquidity inherent in the bank's assets themselves.

II. External liquidity is the liquidity provided by the bank's liquidity structure to fund its assets and maturing liabilities.

III. External liquidity is the non-contractual and contingent capital supplied by investors to support the bank in times of liquidity stress.

IV. Endogenous liquidity is the same as funding liquidity.

A. I, II

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C. II, III

D. I, II, IV

Answer: 8

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