UNIVERSITY OF JOHANNESBURG

Department of Commercial Accounting

RISK IN FINANCIAL SERVICES 2A

RFS22A2

Final Assessment Opportunity

June Examination 2016

Time: 2 hours **Marks: 70**

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INSTRUCTIONS:

- This paper consists of 7 pages (including the cover page).
- Start each question on a new page.
- Calculators are allowed

Question	Topic	Marks	Time
1	Multiple choice	30	40 minutes
2	Principles of Risk Management	10	20 minutes
3	International Risk Regulation	10	20 minutes
4	Operational Risk	10	20 Minutes
5	Credit Risk & Market Risk	10	20 Minutes
		70	**120 minutes**

QUESTION 1 - (30 marks)

1.1 Which ONE of the following is an important tool in the process of risk identification?
   A. Risk categorisation
   B. Risk measurement
   C. Risk ranking
   D. Value-at-Risk models

1.2 Following a review, a bank`s risk management department has implemented a large number of risk mitigation activities. The effect of this is that the bank will now experience a new overall level of risk which is usually known as:
   A. equalised risk
   B. residual risk
   C. inherent risk
   D. exposed risk

1.3 If a regulator moves from a statutory-based approach to regulation to a principles-based approach, it will normally:
   A. trigger a delay in the authorisation process
   B. reduce the need for prescriptive rules
   C. indicate a relaxation in enforcement activities
   D. operate for a relatively short period only

1.4 What key factor can determine a firm`s risk and control culture?
   A. Ongoing supervision by regulators
   B. Shareholder approval
   C. Communication and knowledge management
   D. Recruitment policy

1.5 Under the Bank for International Settlements` Sound Practices Principles, who should have responsibility for implementing the operational risk management framework approved by the board of directors?
   A. The risk manager
   B. The compliance officer
   C. The senior management
   D. The nominated director

1.6 One of the main effects of the Basel Concordat was to broaden the responsibility of:
   A. the European Central Bank
   B. the Bank for International Settlements
   C. the relevant government`s finance ministry
   D. the home state regulator

1.7 If the banking regulator in France wants to study research material on banking regulatory matters, which body is MOST likely to be able to help?
  A. International Monetary Fund
  B. European Central Bank
  C. Bank for International Settlements
  D. European Commission

1.8 International co-operation on banking regulations has been addressed by central banks coming together under the auspices of the:
  A. International Monetary Fund
  B. World Bank
  C. G20
  D. Basel Committee

1.9 The ability to quantify the probability of a harmful event occurring is usually the main criterion used to distinguish between:
  A. risk and uncertainty
  B. risk and probability
  C. market risk and operational risk
  D. investment risk and operational risk

1.10 The Basel Committee's objective is to:
  A. Enhance understanding of supervisory issues and improve the quality of banking supervision worldwide
  B. Publish best practice standards on risk and banking
  C. Serve as a bank for central banks, and foster international monetary and financial co-operation
  D. Establish a worldwide legal framework to force countries to regulate their banks

1.11 Operational risk is defined as the loss arising from four distinct causes. Which of the following is one of these causes?
  A. Systems issues
  B. Market issues
  C. Credit issues
  D. Governance issues

1.12 Risk is not synonymous with uncertainty; variability that can be quantified in terms of probabilities is best thought of as 'risk', whereas 'uncertainty' describes:
  A. Variability that can only be quantified with advanced statistics
  B. Variability that cannot be quantified at all
  C. A more subjective view of risk quantification
  D. A less subjective view of risk quantification

1.13 Which of the following areas forms a Pillar of the Basel Accord?
  A. Minimum capital requirements
  B. Reinsurance needs
  C. Conflicts of interest
  D. Credit risk quantification

1.14 If someone deposits criminally obtained banknotes in a bank account, what stage of the money laundering process does this represent?
A. Integration
B. Layering
C. Phasing
D. Placement

1.15 Deposit insurance schemes are designed to:
A. Enable depositors to offset their cash balances against life insurance premiums
B. Prevent bank runs by reassuring depositors that their funds are safe
C. Prevent bank runs by enabling banks to deposit collateral with the central bank
D. Enable regulators to assess the creditworthiness of a lending institution

1.16 An improved risk awareness within an organisation can MOST effectively be achieved by linking:
A. risk culture and competitive activities
B. risk rankings and product range
C. cash flow and risk categorisation
D. employee pay and risk indicators

1.17 Industry best practice benchmarking is being carried out in order to assess the main internal drivers of a bank`s business risks. Who is MOST likely to be carrying out this analysis?
A. The participants of a risk assessment workshop
B. Members of the board
C. External consultants
D. A SWOT team from the bank`s compliance department

1.18 What is the main reason for a bank`s risk management staff to be involved in product development projects from a very early stage?
A. To keep the terms as competitive as possible
B. To enable mitigation measures to be identified
C. To prevent a breach of the compliance rules
D. To help co-ordinate the interests of all relevant stakeholders

1.19 Which of the following is a means of reducing credit risk within a portfolio?
A. Hedging
B. Top-slicing
C. Diversification
D. Equalisation

1.20 Which of the following items would be most likely to appear on a retail credit scoring questionnaire?
A. Gross risk
B. Number of children
C. Years in current job
D. Probability of default

1.21 Operational controls are commonly utilised in which of the following risk mitigation strategies?
A. Avoid the risk
B. Retain the risk
C. Reduce the likelihood of the risk
D. Transfer the risk

1.22 Which of the following statements regarding the credit risk management function of a bank is TRUE?
A. It owns the majority of the bank's credit risks
B. It transfers responsibility for credit risk exposure to the board
C. It monitors compliance with the bank's credit policy
D. It ensures credit limit compliance through credit risk insurance

1.23 Bond one has a rating of BBB and Bond two has a rating of B+. This means that Bond one:
A. Has a better credit risk rating
B. Has a worse credit risk rating
C. Has a better business risk rating
D. Has a worse business risk rating

1.24 What is the main method used to control the problems associated with \`single-name concentration risk\`?
A. An adjustment to the insurance cover
B. A restriction on credit limits
C. An increase in collateral requirements
D. A request for guarantors

1.25 Which scenario constitutes a combined credit and operational risk?
A. Mismatched settlement instructions
B. Release of collateral before loan is repaid
C. Fraud on a client\`s account
D. Sudden resignation of a director

1.26 Which ONE of the following operational risk issues is classed under Basel II as an event type as opposed to a sub-type?
A. Safe environment
B. Systems security
C. Vendors and suppliers
D. Execution, delivery and process management

1.27 A bank has identified that its debtors\` current obligations total £25.6 million and its estimate of likely losses in the future is £10.8 million. Consequently, its credit exposure is:
A. £10.8 million
B. £14.8 million
C. £25.6 million
D. £36.4 million

1.28 The risk that Firm A may fail to meet its contractual obligations towards Firm B in relation to a particular transaction, is BEST described as:

A. market risk
B. counterparty risk
C. issuer risk
D. business risk

1.29 Which of the following models is used in financial services?

A. Regulatory dynamics
B. Heidelberg's uncertainty principle
C. Market value-at-risk
D. Relativity theory

1.30 The volatility of an investment's value can be quantified mathematically by calculating the investment's:

A. Variance
B. Inter-quartile range
C. Beta
D. Standard deviation

QUESTION 2 - (10 marks)

2.1 Define the following terms

2.1.1	Uncertainty	(2)
2.1.2	Concentration Risk	(2)
2.1.3	Systemic Risk	(2)
2.1.4	Residual Risk	(2)
2.1.5	Diversification	(2)

QUESTION 3 - (10 marks)

3.1 Explain by giving an example what you understand by insider dealing? (1)

3.2 Clearly distinguish between the three pillars of capital adequacy. (6)

3.3 List three levels/types of money laundering. (3)

QUESTION 4 - (10 marks)

4.1 Define operational risk. (2)

4.2 Name at least two (2) areas should an operational risk policy address. (2)

4.3 Name the main four (4) operational risk causes. (4)

4.4 List and explain the two (2) main types of controlling operational risk. (2)

QUESTION 5 - (10 marks)

5.1 What are the four (4) common techniques used for mitigating credit risk? (4)

5.2 Differentiate between volatility risk and interest rate risk. (2)

5.3 What is the difference between stress test and scenario testing? (2)

5.4 Define the following terms:

5.4.1 Collateral (1)

5.4.2 Hedging (1)