Practice Questions Part 4

Chapters covered:

Unit 1 Chapter 1: Operational risk and principles of sound management
Unit 4 Chapter 2: Money laundering and financial terrorism

Multiple choice questions

1. **What is the primary objective of the Basel Principles for the Sound Management of Operational Risk?**
   a. To enhance credit risk assessment techniques
   b. To establish capital adequacy standards for operational risk
   c. To provide guidelines for managing and mitigating operational risks effectively
   d. To develop liquidity management frameworks
   Ans: c

2. **According to Basel, operational risk is defined as the risk of loss resulting from:**
   a. Changes in market conditions
   b. Failure of internal processes, people, systems, or external events
   c. Counterparty default
   d. Insufficient capital reserves
   Ans: b

3. **One of the key principles states that operational risk management should be integrated into which of the following?**
   a. The bank's credit risk framework
   b. The bank's overall risk management processes
   c. The external audit functions
   d. The market risk assessment procedures
   Ans: b

4. **Who is primarily responsible for ensuring the effective management of operational risk within a bank?**
   a. The board of directors and senior management
   b. The IT department
   c. Regulatory authorities
   d. The external auditor
   Ans: a

5. **Basel emphasizes that banks should have policies to identify, assess, monitor, and mitigate operational risk. These policies must be:**
   a. Generic and consistent across all industries

b. Tailored to the bank's risk profile and business lines
c. Primarily focused on external events
d. Designed to avoid any financial losses
Ans**:** b

6. **A sound operational risk management framework requires periodic:**
   a. Assessment of market conditions
   b. Disclosure of employee salaries
   c. Assessment of regulatory fines paid
   d. Review of policies and procedures
   Ans**:** d

7. **According to Basel, banks should ensure that operational risk management is supported by:**
   a. A robust credit risk model
   b. Comprehensive IT systems and internal controls
   c. Aggressive risk-taking practice
   d. Frequent changes in organizational structure
   Ans: c

8. **Basel recommends that operational risk management frameworks should include reporting mechanisms that:**
   a. Are timely, accurate, and directed to appropriate levels of the bank
   b. Focus only on senior management
   c. Ignore regulatory requirements
   d. Rely solely on automated systems
   Ans**:** a

9. **What is the primary goal of Anti-Money Laundering (AML) regulations?**
   a. To monitor credit risk exposure.
   b. To prevent the misuse of financial systems for illicit activities.
   c. To ensure compliance with market risk standards.
   d. To regulate foreign exchange transactions
   Ans: b

10. **Which of the following is a key component of a robust AML and CFT program?**
    a. Ignoring transactions below a specific threshold
    b. Focusing solely on high-value transactions
    c. Limiting regulatory reporting to annual submissions
    d. Conducting customer due diligence (CDD) and ongoing monitoring
    Ans: d

Descriptive questions

Refer to the presentations for the below straightforward questions.

1. **What is the role of supervisors?**

2. **Write a short note on operational risk.**

3. **What are the principles for management of operational risk** *(Any questions related to principles or revised principles can thus be asked)*

4. **Explain the risk management control cycle for money laundering and financial terrorism?** *(Talk about risk assessment, risk management, risk mitigation, risk monitoring)*

5. **Write a short note on customer acceptance, customer verification and customer identification.**

6. **Write a short note on the anti-money laundering regulations in India.**