



Subject: Basel

Chapter: Unit 1

Category: Practice questions

1. Griffin Riehl is a risk manager at Bluegrass Bank and Trust, a small, independent commercial bank in Kentucky. Riehl has recently read the Basel Committee on Banking Supervisions recommendations for sound operational risk management and would like to put several controls in place. He would like to start with the three lines of defense suggested by the committee. Which of the following is not one of the three common lines of defense suggested by the Basel Committee for operational risk governance?

- A. Business line management.
- B. Board of directors and senior management risk training programs.
- C. Creating an independent operational risk management function in the bank.
- D. Conducting independent reviews of operational risks and risk management operations.

2. Garrett Bridgewater ,a trader at a large commercial bank ,has continued to increase his bonus each year by producing more and more profit for the bank. In order to increase profits, Bridgewater has been forced to increase the riskiness of his positions, despite the written risk appetite and tolerance statements provided to all employees of the bank. The bank seems happy with his performance so Bridgewater takes that as a sign of approval of his methods for improving profitability. Which of the following pairs of the 11 fundamental principles of risk management has the bank most clearly violated in this situation?

- A. Principle 1(a strong risk management culture) and Principle 11(the bank should make clear disclosures of operational risks to stakeholders).
- B. Principle 2 (develop an integrated approach to operational risk management) and Principle 7(establish a rigorous approval process for new lines of business).
- C. Principle 3(approve and review the operational risk framework) and Principle 4 (develop risk appetite and tolerance statements).
- D. Principle 5(develop a well-defined governance structure) and Principle 6(understand the risk and incentives related to risk inherent in the banks business lines and processes).

3. Gary Hampton is providing descriptions of the operational risk management assessment tools, reporting lines, and accountabilities to the board of directors. Hampton is most likely working on:

- A. Framework documentation.
- B. A corporate operational risk function (CORF handbook of operations).
- C. An outline of the fundamental principles of operational risk management.
- D. An open group operational framework diagram.

4. George Math is works in risk analysis and management at a large commercial bank. He uses several tools to identify and assess operational risk. He has asked several business line managers to identify some risk events that would disrupt business. Each manager has also provided their thoughts on what would happen given worst case operational failures. The risk assessment tool Mathis is most likely using in this case is (are):

- A. Risk indicators.
- B. Comparative analysis.
- C. Scenario analysis.
- D. Business process mappings.

5. A risk management officer at a small commercial bank is trying to institute strong operational risk controls, despite little support from the board of directors. The manager is considering several elements as potentially critical components of a strong control environment. Which of the following is not a required component of an effective risk control environment as suggested by the Basel Committee on Banking Supervision?

- A. Information and communication.
- B. Monitoring activities.
- C. A functionally independent corporate operational risk function.
- D. Risk assessment.

6. The Basel Committee suggests that operational risks must be proactively managed by a bank's:

- A. Employees, business line managers, senior managers, and board of directors.
- B. Employees, business line managers, senior managers, only
- C. Business line managers and senior managers, only
- D. Business line managers, only.



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