



INSTITUTE OF ACTUARIAL
& QUANTITATIVE STUDIES

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 12 fundamental principles of risk management has the bank most clearly violated in this situation?

- A. Principle 1(a strong risk management culture) and Principle 12 (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 bank's 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 (of operational risk management)
- B. A corporate operational risk function handbook of operational functions.
- C. An outline of the fundamental principles of operational risk management.
- D. An open group operational framework diagram.

4. George Math 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): **(select upto 2 options)**

- 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. Operational Risk is a combination of:

- I - People, Process, System and External events
- II - People, Process, Reputational Risk and External
- III- People Process, Legal and External
- IV- Any risk not covered under Credit and Market risk

- A. Only I.
- B. I, II & III.
- C. IV.
- D. All four.

7. "Payments credited to the wrong account" is an example of which Risk?
- A. Credit risk
 - B. Account risk
 - C. Liquidity risk
 - D. Operational risk
8. 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.
9. Information security comprises:
- I All technology and IT systems
 - II Data, Technology and Systems
 - III Technology only
- A. Only I.
 - B. Only III.
 - C. Only I & II.
 - D. All three
10. Mahendra and Virat are senior managers of the operational risk divisions of the bank and are discussing functions of the BASEL accords. According to them, the following are the functions of BASEL, which of the following is their faulty assessment?
- A. Ensuing enough cash reserves to meet their financial obligations and survive in financial and economic distress.
 - B. Using standardized measurements for credit, market risk, and operational risk.
 - C. To strengthen corporate governance, risk management, and transparency.
 - D. The regulations are considered to be the most comprehensive set of regulations governing the international banking system.