PRMIA

8009 Exam

Case Studies: Standards: Governance, Best Practices and Ethics - 2015 Edition

Questions & Answers
Demo

Version: 4.0

Question: 1

A VaR model for managing market risk at Barings Bank in London would most likely have:

A. Alerted senior management to the problems before the major losses occurred
B. Helped very little as Nick Leeson hid many trades
C. Not correctly assessed the risk in Nick Leeson's option trades as they have non-linear price characteristics
D. Been used if senior management had ever seen it

Answer: B

Question: 2

Which of the following is FALSE?

A. Nick Leeson also ran the back office for his trading area
B. Nick Leeson dealt in complex derivatives lacking transparency of pricing
C. SIMEX made inquiries to Barings Bank about large margin calls on its positions
D. Nick Leeson claimed to be running an arbitrage book

Answer: B

Question: 3

What is (are) the lesson(s) of the Barings' failure?

A. Incentive plans have risk management implications
B. Front and back offices need to be independent
C. Large profits can be an indicator of risk
D. All of the above

Answer: D

Question: 4

Which of the following was a key problem in the Barings Bank case?

A. Having the back office and front office operations under the same person
B. Difference in the contract sizes in the OSE and SIMEX
C. The different time zones that the office was trading in
D. Leeson was executing an arbitrage strategy even though he was not authorized to do so

Answer: A

Question: 5

Barings failed to recognize that Nick Leeson's losses were increasing because:

A. Leeson ran the front office
B. The London office did not ask for any reports
C. Leeson hid his trades in a suspense account
D. The margin report sent to London did not show the true margin needs

Answer: C