

PRACTICE QUESTIONS

OPERATIONS RISK MANAGEMENT

1. _____ are unknown outcomes, whose odds of happening can be measured. [1Marks]
- a) Risks
 - b) Uncertain events
 - c) Both the above
 - d) None of the above
- Correct Answer: Risks**
2. The most significant risk that banks face on their loan book is [1Marks]
- a) Liquidity risk
 - b) Credit risk
 - c) Interest risk
 - d) Market risk
- Correct Answer: Credit risk**
3. Which of the following affects the fundamental premise on which business is built? [1Marks]
- a) Credit Risk
 - b) Model Risk
 - c) Strategy Risk
 - d) Liquidity Risk
- Correct Answer: Strategy risk**
4. Which of the following is intentional? [1Marks]
- a) Error
 - b) Malpractice
 - c) Both the above
 - d) None of the above
- Correct Answer: Malpractice**
5. Which of the following is a critical operations risk? [1Marks]
- a) Recruitment only through references
 - b) Training needs analysis by outsiders
 - c) Open office policy where no passwords are used
 - d) Bonuses linked to profits
- Correct Answer: Open office policy where no passwords are used**

6. It is normal for the statutory auditor to take up the job of internal audit of the company. [1Marks]

- a) True
- b) False

Correct Answer: False

7. Demat reduces the operations risk of bad delivery in the stock market. [1Marks]

- a) True
- b) False

Correct Answer: True

8. Which of the following do not clear trades of other TM? [1Marks]

- a) SCM
- b) PCM
- c) TCM
- d) All the above

Correct Answer: SCM

9. Authorised Persons issue contract notes for trades of clients they have introduced to a TM. [1Marks]

- a) True
- b) False

Correct Answer: False

10. Match of buy and sell orders through the NEAT system is affected without human intervention. [1Marks]

- a) True
- b) False

Correct Answer: True

11. Dealers are users at the _____ level of hierarchy in NEAT. [1Marks]

- a) Lowest
- b) Highest
- c) Median
- d) Highest for buy orders; lowest for sell orders

Correct Answer: Lowest

12. Which of the following help minimise the impact of punching errors in NEAT? [1Marks]

- a) Price freeze
- b) Quantity freeze
- c) Both the above

d) None of the above

Correct Answer: Both of the above

13. How does NSE Clearing Ltd protect itself against member defaults? [1Marks]

- a) Capital adequacy requirements
- b) Margins
- c) Both the above
- d) None of the above

Correct Answer: Both the above

14. Custodian is a clearing member, but not trading member. [1Marks]

- a) True
- b) False

Correct Answer: True

15. Clearing banks are responsible for pay in and pay out of securities [1Marks]

- a) True
- b) False

Correct Answer: False

16. NSE Clearing Ltd gives consummated trade details to [1Marks]

- a) TM
- b) CM
- c) Clearing bank
- d) Depository

Correct Answer: CM

17. Securities have to necessarily go through the pool account of the CM before they reach the demat account of client. [1Marks]

- a) True
- b) False

Correct Answer: False

18. Counter-party risk is minimized through [1Marks]

- a) Netting
- b) Reducing time gap between trade and settlement
- c) Both the above
- d) None of the above

Correct Answer: Both the above

19. VaR margin for illiquid securities is calculated based on [1Marks]

- a) Volatility of security
- b) Volatility of index
- c) Both the above

d) None of the above

Correct Answer: Both the above

20. The split of front office, middle office and back office is done to [1Marks]

- a) Increase number of jobs in the market
- b) Enhance internal controls
- c) Reduce transaction cost
- d) All the above

Correct Answer: Enhance internal controls

21. is the market interface for executing trades. [1Marks]

- a) Front office
- b) Middle office
- c) Back office
- d) None of the above

Correct Answer: Front office

22. Dealers are part of [1Marks]

- a) Front office
- b) Middle office
- c) Back office
- d) None of the above

Correct Answer: Front office

23. Risk management function for market risks is part of [1Marks]

- a) Front office
- b) Middle office
- c) Back office
- d) None of the above

Correct Answer: Middle office

24. Valuation function is part of [1Marks]

- a) Front office
- b) Middle office
- c) Back office
- d) None of the above

Correct Answer: Middle office

25. Settlement staff are part of Front office [1Marks]

- a) Middle office
- b) Back office

c) None of the above

Correct Answer: Back office