CHARTERED INSTITUTE FOR SECURITIES & INVESTMENT

LEVEL 3
CERTIFICATE IN INVESTMENT OPERATIONS

OPERATIONAL RISK (VERSION 22)

SAMPLE PAPER

TIME ALLOWED: 1 HOUR

No copying of any part of this paper is permitted without the prior written authority of the Chartered Institute for Securities & Investment

© Chartered Institute for Securities & Investment

How to use this sample paper

These 50 questions should be answered in an hour in the real exam, so make sure you time yourself accurately.

Record your answer for each question by circling your selected answer.

When you have finished the test, you may check your answers against the **Answer Sheet** at the back of this paper.

The exam is scored as follows:

46-50	Pass with Merit
35-45	Pass
0-34	Fail

For those questions you answered incorrectly, the answer sheet will show you the corresponding syllabus element, sub element and learning objective against which the questions were written, so you can identify any syllabus areas where you may need to revise further.

SAMPLE PAPER

1 Which of the following statements is true in respect of the internal audit function?

A It provides an independent, in-house assessment of the firm's risk controls

B It works closely with senior management with a restricted mandate

C It monitors risk on a continuous day-to-day basis

D It has no link to the operational risk management process

2 Dan and Tom are Chief Risk Officers at their respective firms.

Only Dan has responsibility for implementing his firm's Enterprise Risk Management approach.

What is this most likely to indicate regarding their respective firms?

A Only Dan's firm operates globally

B Only Tom's firm requires him to sit on the board of directors

C Tom's firm has a greater focus on niche markets

D Dan's firm is significantly larger

SAMPLE PAPER

3 What is the main purpose of the first line of defence in a firm's three lines of defence model? To:

A impose processing controls for its daily activities

B prescribe a risk framework at board level

C ensure all activities comply with appropriate regulations

D operate independent oversight of all activities

4 At which stage in the risk mitigation process does an internal detective control aim to detect a potential error?

A Long before it is likely to occur

B Immediately before it is about to occur

C After it has occurred but before a potential loss is realised in the outside world

D After it has occurred and once losses have been realised in the outside world

5 Under Basel II, what event would fall under the execution, delivery and process management operational risk category?

A Insider trading on an employee's own account

B Violation of employee health and safety rules

C Unapproved access to client accounts

D Misuse of confidential client information

SAMPLE PAPER

6 The main purpose of enhancing personal responsibility and empowerment of individuals within acceptable risk levels is to:

A increase opportunities for integrated risk management

B assist in the development of a favourable risk culture

C impact on an organisation's strategic objectives

D transfer the likelihood of operational risk occurring to other departments

7 With which of the following is the legal department most likely to become involved in order to reduce legal risk?

A Employee compensation

B External reporting

C Netting arrangements

D Reporting suspicious transactions

8 Unforeseen litigation has caused operational risk to be realised. This will impact directly upon a company's finances through:

A a weaker share price

B substantial regulatory fines

C expensive replacement procedures

D possible compensation and legal bills

SAMPLE PAPER

9 Funding liquidity risk primarily relates to the difficulty of:

A obtaining settlement on legitimate transactions

B achieving sufficient returns from money held on deposit

C meeting liabilities when they fall

D quantifying the amount of assets held in cash

10 Which of the following functions does the middle office usually carry out?

A Administration and support

B Trade monitoring

C Product sales and corporate finance

D Settlements, regulatory compliance and accounting

11 A risk score, or risk rating, is calculated by:

A adding likelihood and impact

B multiplying likelihood and impact

C subtracting residual impact from inherent impact

D dividing impact by risk tolerance

SAMPLE PAPER

12 Which of these is a requirement for use of the standardised approach for calculating operational risk capital requirements under Basel II?

A The risk process must use external loss data

B The calculation must reflect a confidence level of 99.9%

C The firm must record operational risk losses by business line

D The calculation must be based on five years history of loss data

13 Raphael's Bank was fined by the FCA and PRA in 2018 for having inadequate controls in relation to:

A money laundering

B outsourcing arrangements

C Insider trading

D customer assets

14 A firm invests in a software application which is designed to automate processes and controls to eliminate risk due to human error.

This is an example of:

A an internal detection control

B a preventive control

C an external detection control

D risk-sharing

SAMPLE PAPER

15 Which of the following is an example of indirect financial loss to a firm?

A A client cancelling a sales contract

B A contract for fees proving to be unenforceable

C An employee winning a claim for workplace harassment

D Additional manual processing being required due to a computer failure

16 Which of the following is a key preventive control in respect of the confirmation process?

A Automating processing of payments

B A secondary check of confirmations performed by a different person than the creator

C Following up with counterparties who have outstanding written confirmations

D Front office sign-off of the economic terms of the confirmation

17 The Know Your Customer rules are essential to a firm to enable it to:

A maintain profit margins

B give proper advice

C ensure accurate static data at all times

D start dealing on behalf of customers

SAMPLE PAPER

18 It is difficult for a firm to measure operational risk due to:

A data protection legislation

B changing requirements of the Regulator

C lack of accurate and comprehensive data

D commercially sensitive nature of the data involved

19 An asset held by a lender on behalf of a borrower, as security for a loan, is described as what?

A Asset securitisation

B Collateral

C Loan sale

D Netting

20 'The comparison of loss data and measurement of operational risk with competitors and other firms in the industry.'
Which form of risk measurement does this describe?

A Benchmarking

B Bottom-up measurement

C Ranking

D Scenario analysis

SAMPLE PAPER

21 What is the minimum capital ratio set out by Pillar 1 of Basel II?

A 2.5%

B 6%

C 8%

D 25%

22 Which of the following would constitute a post-settlement risk control indicator?

A Monitoring settlement breaks

B Sending manual confirmations to counterparties

C Sending electronic confirmations to counterparties

D Recording the number of times each counterparty settles late

23 A near miss incident occurs at a financial institution. How should it be dealt with?

A A one off can be ignored but further incidents should be reported

B Identify the cause of the incident and check the KRIs

C Identify the incident and report it to management

D Add it as an extra item to weekly departmental reports

SAMPLE PAPER

24 What is a key control for the set-up phase for a new customer?

A Checking the profit and loss accounts

B Monitoring positions

C Establishing credit limits

D Processing reference data

25 One of the best ways to ensure a favourable risk culture within a large organisation is to:

A demand adherence to a published procedures manual

B adopt a top-down approach to disseminating guidance and information

C actively encourage a committee style decision making process

D operate effective leadership at senior management level

26 A firm conducting a top-down risk assessment process has identified various events which could affect the achievement of its business objectives.

What is typically the next stage in this process?

A Avoid any activities which could trigger these events occurring

B Report these potential events to the relevant regulator

C Periodically review claims experience in respect of these events

D Consider the likelihood and impact of these events

SAMPLE PAPER

27 How would the mode help someone analyse the height of a large group of people?

A By calculating the average height

B By confirming the most common height

C By discriminating between the highest and lowest height

D By measuring the dispersion from the average height

28 Identifying risks is the first of which of the following stages of the risk management process?

A Categorising risks

B Measuring risks

C Analysing risks

D Monitoring risks

29 An ongoing, continuous process of objective measurement against a pre-agreed risk appetite is an important activity for what part of the risk management process?

A Identifying

B Categorising

C Monitoring

D Reporting

SAMPLE PAPER

30 An organisation wishes to review its policies and guidelines due to new regulations being introduced. It is the responsibility of which function to coordinate such work?

A Audit

B Compliance

C Human resources

D Operations

31 A company faces significant fines for false promotion of its product.

Which department is responsible for ensuring false promotion of a product does not occur?

A Research and Development

B Legal

C Marketing

D Compliance

32 The availability of external loss data helps firms to:

A improve product control function

B reduce residual risk

C benchmark performance

D enhance regulatory compliance

SAMPLE PAPER

33 Which of the following is a main category of risk in the financial services industry?

A Credit risk

B Settlement risk

C Default risk

D Issuer risk

34 Which of the following is a recognised Basel operational risk category?

A Business continuity

B Information security

C Capital adequacy

D External fraud

35 Which process is the first stage in understanding how operational risk affects a firm?

A Risk co-ordination

B Risk identification

C Risk monitoring

D Risk reporting

SAMPLE PAPER

36 Understanding the likelihood of risks occurring and their impact on the business in terms of direct or indirect loss is a description of which of the following?

A Risk policy

B Risk identification

C Risk measurement

D Risk reporting

37 How can credit risk be defined?

A The risk of not entering into a contract with a counterparty

B The risk of not being offered credit by suppliers

C The risk caused by an institution being given a poor credit rating

D The risk of loss caused by a counterparty not meeting its obligations

38 Under MiFID, what is one of the requirements for an Internal Audit function?

A That the function is sufficiently resourced

B That the function is physically separated from the rest of the business

C That the Internal Auditors hold the prescribed qualifications

D That the function works effectively with Risk Management

SAMPLE PAPER

39 Value-at-risk, as a method of market risk management, only tends to be viable in cases where:

A significant hedging is undertaken

B good historical data is available

C long-term loans are involved

D prices and values are relatively stable

40 Which of the following is a technique employed in measuring credit risk?

A Pre-settlement exposure

B Credit ratings

C Counterparty exposure

D Risk/return analysis

41 When one type of risk exposure is offset by another exposure in an instrument that behaves in a similar, but not identical manner, it is an example of what type of risk?

A Basis risk

B Liquidity risk

C Price level risk

D Volatility risk

SAMPLE PAPER

42 A key aim of the operational risk management function is:

A to minimise the firm's risk requirement under Pillar 3

B to assist with the identification, measurement, assessment and management of operational risk

C to eliminate the employment of staff who contribute most to trading risks

D to ensure there is enough capital for three months of expenses

43 Which of the following is a key function of operational risk reporting?

A An ongoing process of objective measurement

B To allow prompt and decision action to be taken to the address the risk

C The adoption of appropriate risk parameters

D To put sufficient controls in place to negate increases in risk

44 An increase in a particular firm's risk exposure is directly attributable to an ineffective control culture.
Within which category of the four main causes of operational risk is this most likely to fall?

A Environment

B People

C Process

D Technology

SAMPLE PAPER

45 Which of the following lists the three Pillars of Basel II?

A Basic indicator approach, standardised approach and advanced measurement approach

B Minimum capital requirements, supervisory approach and market disclosure

C Credit risk exposure, market risk exposure and organisational risk exposure requirements

D Internal processes, flexibility in risk measurement and risk sensitivity

46 Which of the following set of classifications contains all of the areas covered in the definition of operational risk by the Bank for International Settlement?

A Operational, Reputational, Financial, External Events

B People, Systems, External Events, Processes

C Legal, Reputational, Financial, Compliance

D External Events, Strategic, Processes, People

47 A trade execution error is most likely to occur in:

A the dealing desk

B reconciliations

C settlements

D trade support

SAMPLE PAPER

48 For a strong risk culture to prevail on a company-wide basis, it must be heavily supported by senior management.

Why is it acceptable for risk management approaches to vary from one company to another?

A To satisfy the requirements of the Basel Accord

B To ensure the satisfaction of the board of directors

C To reflect the different business activities undertaken by firms

D To maximise the pace of change

49 Which of the following statements is true regarding the use of key risk indicators?

A They cannot be manipulated

B They are easy to obtain from transaction processing systems

C They allow trends to be monitored

D They can accurately predict future risk events

SAMPLE PAPER

50 To satisfy the qualification criteria for adopting the standardised approach to capital adequacy, firms must:

A generate total gross business income of at least £100m p.a.

B incur operational risk losses of less than £2m p.a.

C systematically track losses by business units

D hold a fixed percentage of its gross income as operational risk capital

SAMPLE PAPER

Operational Risk (Version 22)

Question Number	Answer	Syllabus Reference
1	A	6.6.1
2	D	6.1.1
3	A	3.4.2
4	C	3.8.1
5	C	3.5.3
6	B	3.2.3
7	C	6.8.2
8	D	4.1.3
9	C	2.8.1
10	B	6.2.1
11	B	3.7.3
12	C	7.2.4
13	B	1.1.3
14	B	3.8.2
15	D	4.2.1
16	A	5.3.2
17	B	5.1.1
18	C	3.7.8
19	B	2.3.2
20	A	3.7.9
21	C	7.2.2
22	A	5.5.2
23	C	4.4.1
24	C	5.1.2
25	D	3.2.1
26	D	3.7.6
27	B	2.5.1
28	A	3.5.1
29	C	3.9.2
30	B	6.3.1
31	C	6.9.1
32	C	3.7.10
33	A	1.1.1
34	D	3.5.2
35	B	3.3.4
36	C	3.7.1
37	D	2.1.1

SAMPLE PAPER

38	**A**	**6.6.2**
39	**B**	**2.6.4**
40	**B**	**2.2.1**
41	**A**	**2.4.1**
42	**B**	**3.3.2**
43	**B**	**3.9.4**
44	**B**	**4.1.1**
45	**B**	**7.2.3**
46	**B**	**3.1.1**
47	**A**	**5.2.2**
48	**C**	**3.2.4**
49	**C**	**3.9.3**
50	**C**	**7.2.4**

SAMPLE PAPER