Question #1 of 5

Question ID: 1427431

Bank XYZ's senior management and its board of directors currently receive fragmented risk management information from various functional units. Given the shortcomings of this approach, the chief risk officer (CRO) suggests a more centralized risk management system. Which of the following statements is correct regarding the implementation of an enterprise risk management (ERM) program?

I. ERM is crucial in establishing a firm-wide, integrated set of policies, procedures, and standards.
II. ERM increases the efficiency of managing company risks.

A) I only.

B) Both I and II.

C) Neither I nor II.

D) II only.

Explanation

Given the noted shortcomings of the traditional approach, an integrated and centralized framework would significantly increase the efficiency of managing company risks. Such a centralized approach is called *enterprise risk management (ERM)*. ERM is crucial in establishing a firm-wide, integrated set of policies, procedures, and standards. From senior management's perspective, an ERM system provides an invaluable overall risk perspective and control.

(Book 1, Module 8.1, LO 8.a)

Question #2 of 5

Question ID: 1427435

The risk culture of a firm is the goals, customs, values, and beliefs that influence the behaviors of employees. Which of the following indicators is a key internal risk culture indicator identified by the Financial Stability Board (FSB)?

A) Country risks.

B) Changing industry practices.

C) The economic cycle.

D) Tone from top management.

Explanation

The FSB has specified four key risk indicators for a strong risk culture: (1) tone from the top of the organization, (2) effective communication and challenge, (3) incentives, and (4) accountability. The other factors mentioned are *external* factors for a strong risk culture.

(Book 1, Module 8.2, LO 8.d)

Question #3 of 5

Question ID: 1427432

Which of the following characteristics most likely describes enterprise risk management (ERM) as opposed to a traditional silo-based risk management program?

A) Managing risks within the lines of business.

B) Isolating risk managers from the chief risk officer.

C) Hedging risks with specific risk transfer tools.

D) Reviewing risks across all business lines, functional areas, and risk types.

Explanation

Under an ERM view, risks are viewed as a component of the whole. In a siloed approach, these are typically treated as separate decisions without a strategic approach to the overall enterprise risk. Reviewing risks across all business lines, functional areas, and risk types is a characteristic of ERM.

(Book 1, Module 8.1, LO 8.a)

Question #4 of 5

Question ID: 1427434

Which of the following statements is most likely a disadvantage to using scenario analysis? Scenario analysis:

A) can be intuitive and transparent.

B) may be used to develop the firm's risk appetite, set risk limits, and be used in capital adequacy planning.

C) may be straightforward or highly sophisticated.

D) leads to a quantification of risk, which is needed for models built around scenarios.

Explanation

Scenario analysis does not lead to a quantification of risk because it is qualitative in nature (though quantitative models are built around scenarios).

(Book 1, Module 8.2, LO 8.e)

Question #5 of 5

Question ID: 1427433

Setting a firm's risk appetite is most likely associated with which of the following enterprise risk management (ERM) dimensions?

A) Metrics.

B) Strategies.

C) Targets.

D) Structure.

Explanation

A strong ERM framework has five important dimensions: (1) targets, (2) structure, (3) identification and metrics, (4) ERM strategies, and (5) risk culture. Targets include: risk appetite and goals in light of the firm's risk appetite.

(Book 1, Module 8.1, LO 8.c)