PRMIA

MLARM

PRMIA Market, Liquidity and Asset Liability Risk Management (MLARM)

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Question: 1

Following the collapse of Silicon Valley Bank (SVB), which specific market risk factor was highlighted as a primary driver of their balance sheet instability?

A. Sharp increases in interest rates causing a decline in the value of fixed-income securities.
B. Extreme volatility in the price of crypto-assets held in the trading book.
C. A sudden devaluation of the US Dollar against major G7 sovereign currencies.
D. Massive defaults in the subprime mortgage-backed securities held by the bank.

Answer: A

Question: 2

During periods of "Low Liquidity," why does "Mark-to-Market" valuation become a significant governance challenge?

A. Because market prices become more transparent and easier to verify.
B. Because the lack of active trades makes it difficult to find reliable price inputs.
C. Because regulators waive the requirement for valuations during market stress.
D. Because low liquidity typically leads to a decrease in the bid-ask spread.

Answer: B

Question: 3

What does the "Fat Tail" (leptokurtosis) phenomenon in market returns imply for a risk manager using a Normal distribution-based VaR model?

A. The model will systematically overstate the risk of losses.
B. The model will accurately capture all tail events in a crisis.
C. The model will systematically understate the risk of losses.
D. The model will show that the mean return is always zero.

Answer: C

Question: 4

How does "Funds Transfer Pricing" (FTP) assist in the management of market risk within a commercial bank?

A. By allowing the sales team to set their own interest rates without oversight.
B. By centralizing market risks into a single unit, such as the Treasury department.
C. By eliminating the need for the bank to hold any regulatory capital for market risk.
D. By guaranteeing that the bank's net interest margin remains constant every year.

Answer: B

Question: 5

"The Market's Greatest Hits" approach to scenario calibration relies primarily on which of the following data sources?

A. The projected economic growth rates of emerging markets over the next decade.
B. The internal performance reviews of the bank's most senior investment traders.
C. The actual historical data from previous market crises like the 2008 crash.
D. The hypothetical price movements generated by a random walk simulation model.

Answer: C

Question: 6

Under the Fundamental Review of the Trading Book (FRTB), what is the specified confidence level for the internal model-based Expected Shortfall (ES) calculation?

A. A confidence level of 95.0% for all liquid trading assets.
B. A confidence level of 97.5% for all liquid trading assets.
C. A confidence level of 99.0% for all liquid trading assets.
D. A confidence level of 99.9% for all liquid trading assets.

Answer: B

Question: 7

When a bank manages its "Net Stable Funding Ratio" (NSFR), what strategic shift is it most likely to make on the liability side?

A. Reducing the reliance on short-term wholesale funding in favor of deposits.
B. Moving all its long-term corporate debt into short-term overnight loans.

C. Closing all retail branches to focus exclusively on high-frequency trading.
D. Increasing the dividend payout to shareholders to 100% of annual profit.

Answer: A

Question: 8

A bank has a "Negative Duration Gap." If interest rates increase, what is the expected impact on the Economic Value of Equity (EVE)?

A. The Economic Value of Equity will decrease significantly.
B. The Economic Value of Equity will become negative.
C. The Economic Value of Equity will not change at all.
D. The Economic Value of Equity will increase.

Answer: D

Question: 9

Which "Risk Implication" is most specific to the physical nature of commodities compared to financial assets like equities?

A. The risk that the issuer of the commodity will file for bankruptcy.
B. The risk that the market volatility will drop to zero for one year.
C. The risk of loss due to physical spoilage or inadequate storage.
D. The risk that the central bank will raise the overnight lending rate.

Answer: C

Question: 10

If a bank's FTP system fails to include a "Cost of Stability" for demand deposits, what is a likely strategic consequence?

A. The bank may overstate the profitability of short-term, volatile funding.
B. The bank will stop accepting all deposits from retail and corporate customers.
C. The bank's risk management staff will be required to work only on weekends.
D. The bank will be legally forced to merge with a larger international competitor.

Answer: A

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