



# **PRM Certification - Exam IV: Case Studies; Standards: Governance, Best Practices and Ethics**

**[PRMIA 8004](#)**

**Version Demo  
Total Questions: 10**

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**QUESTION NO: 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 NO: 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 NO: 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 NO: 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 NO: 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

**QUESTION NO: 6**

Select the one correct statement relative to Barings Bank.

- A. Proprietary and agency trading were combined and therefore did not increase risk.
- B. Proprietary and agency trading were separate and therefore did not increase risk.
- C. Proprietary and agency trading were combined and therefore did increase risk.
- D. Proprietary and agency trading were separate and did increase risk.

Answer: C

**QUESTION NO: 7**

Which of the following would have contributed to noticing and preventing Leeson's violations at Barings?

- A. Separation of front and back offices
- B. More senior level involvement at Barings regarding use of derivatives
- C. Recognition that large profits can be an indicator of higher risk
- D. All of the above

Answer: D

**QUESTION NO: 8**

The problems at Bankers Trust can best be characterized as failures related to:

- A. Market Risk
- B. Credit Risk
- C. Operational and Regulatory Compliance Risk
- D. All of the Above

Answer: C

**QUESTION NO: 9**

Which of the following best characterize the problems that developed at Bankers Trust?

- A. Volume growth at the expense of margin
- B. Excessive reliance on volatile and sophisticated derivatives
- C. A failure to try to protect their clients' interests
- D. Over exposure to the property market

Answer: C

**QUESTION NO: 10**

What was the most important loss for Bankers Trust?

- A. Money due to unfavourable market moves
- B. Loss of its' reputation due to actions seen as detrimental to their clients
- C. Loss of market share due to their licenses being revoked
- D. Time spent on legal proceedings in courts

Answer: B

**QUESTION NO: 11**