

# PRMIA

8004

*Case Studies; Standards: Governance, Best Practices and Ethics*

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## Question: 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: 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: 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: 4

Which of the following was a key problem in the Barings Bank case?

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- 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: 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**

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