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QUESTION NO: 1

Which of the following is a correct statement about control rating scales?

A. They are enhanced by the use of software that includes inherent risk.

B. A control rating scale should consider control effectiveness but not control performance.

C. A control rating scale should consider both control effectiveness and control performance.

D. A control rating scale should consider neither control effectiveness or control performance.

ANSWER: C

Explanation:

A control rating scale should consider both control effectiveness and control performance. A meaningful assessment needs to address whether a control is suitably designed to mitigate the relevant risk and whether it is actually operating consistently in the way its design requires. Effectiveness captures the extent to which the control can prevent, detect, or reduce the risk exposure when properly applied. Performance captures its execution in practice, including such matters as timeliness, consistency, evidence of operation, ownership, and whether identified exceptions are remediated. Considering both dimensions produces a rating that management can use to understand the reliability of the control environment and to prioritize remediation based on residual operational risk. This approach is consistent with the Basel Committee's operational-risk principles, which emphasize sound internal controls, ongoing monitoring, and independent review of the operational-risk management framework. It also aligns with the COSO internal-control framework's focus on evaluating whether controls are present and functioning. A rating informed by both design-related effectiveness and actual operating performance gives a more complete and decision-useful view of control strength than either measure alone. See the Basel Committee Principles for the Sound Management of Operational Risk and the COSO Internal Control guidance.

QUESTION NO: 2

Risk and compliance functions often work together; which of the following best desribes the issue with a "zero risk appetite"?

A. A zero risk appetite is illegal under all known regulations.

B. It means that there can be a risk self assessment workshop for the compliance department.

C. An organization may decide that it will accept a certain level of outstanding compliance issues and thus will breach such an appetite statement.

D. It will result in a compliance investigation conducted by the first line.

ANSWER: C

Explanation:

"An organization may decide that it will accept a certain level of outstanding compliance issues and thus will breach such an appetite statement." correctly identifies the practical problem with expressing compliance appetite as zero. A risk-appetite statement sets the amount and types of risk an organization is prepared to assume in pursuit of its objectives. When the stated appetite is zero, the existence of any outstanding compliance issue—however minor, promptly identified, or actively being remediated—technically exceeds the statement. In practice, organizations may discover issues through monitoring, testing, self-assessment, or regulatory change, and those issues can remain open while remediation is designed, approved, and implemented. Management may reasonably accept that temporary residual exposure subject to escalation, ownership, deadlines, and oversight. That operationally necessary acceptance conflicts with an absolute zero-appetite statement and makes the statement difficult to apply consistently. Effective risk appetite therefore needs to be sufficiently clear, measurable, and aligned with governance and decision-making, including how breaches are identified and managed. The Basel Committee describes risk appetite as the aggregate level and types of risk a bank is willing to assume within its risk capacity; this supports the need for a usable framework rather than an unqualified aspiration. See the Basel Committee's Principles for an Effective Risk Appetite Framework and the ISO 31000 risk-management standard overview.

QUESTION NO: 3

Which of the following is not the purpose or benefit of a Risk Appetite statement?

A. Risk management standards and resources are likely to be improved.

B. The governing body articulates its expectations.

C. Establishes the maximum risk that the organization can stand.

D. Assists with Strategic discussions.

ANSWER: C

Explanation:

“Establishes the maximum risk that the organization can stand.” is the correct selection because it describes risk capacity rather than the purpose of a risk appetite statement. Risk capacity is the outer limit of risk an organization can absorb or withstand, considering such factors as available capital, liquidity, earnings resilience, operational capabilities, and regulatory constraints. It represents a boundary beyond which the organization’s viability, obligations, or compliance could be compromised.

A risk appetite statement instead expresses the amount and types of risk the organization is willing to accept while pursuing its strategy and objectives. It is a governance and decision-making tool: senior management and the governing body use it to set expectations, align strategic choices with risk-taking, establish meaningful limits and tolerances, and monitor whether actual risk exposures remain consistent with the organization’s intended risk profile. Appetite must be set with capacity in mind, but it is not itself a statement of the absolute maximum loss or exposure the organization can survive. The Financial Stability Board’s risk-governance guidance distinguishes the board-approved risk appetite framework from the institution’s underlying financial and operational constraints; see the Financial Stability Board’s Principles for an Effective Risk Appetite Framework. Related governance expectations are also reflected in the Basel Committee’s corporate governance principles for banks.

QUESTION NO: 4

Which of the below is accurate about a risk assessment workshop?

A. The workshop should be run spontaneously so that proper discussion can take place.

B. Although workshops will take on their own form; it is best to prepare thoroughly ahead of time.

C. Risk management should not attend the workshop so that proper discussion can take place.

D. Compliance experts should not attend the workshop so that proper discussion can take place.

ANSWER: B

Explanation:

Although workshops will take on their own form; it is best to prepare thoroughly ahead of time. A risk assessment workshop is a facilitated and structured exercise used to identify, assess, and prioritize operational risks within a process, business area, or change initiative. Preparation establishes the workshop’s scope, objectives, participants, relevant risk taxonomy, assessment criteria, and supporting materials. This allows participants to focus their time on meaningful discussion, evidence, and informed judgments about risk exposures and controls.

Good preparation also supports participation by the appropriate first-line business representatives and subject-matter specialists, together with independent risk and compliance functions where relevant. A clear agenda and agreed assessment method make it easier to document risk scenarios, evaluate likelihood and impact consistently, identify control gaps, and assign accountable follow-up actions. The precise format may appropriately vary according to the organization, process complexity, risk profile, and local governance; however, this flexibility does not remove the need for advance planning. This approach reflects ISO 31000’s emphasis on a structured, inclusive, and customized risk-management process and is consistent with sound operational-risk practice. See ISO 31000 risk management guidance and PRMIA’s professional risk-management resources.

QUESTION NO: 5

A bank’s climate-risk assessment identifies that severe flooding could interrupt operations at a key document-processing centre, while new carbon regulations could increase costs for some commercial borrowers. How should these exposures be classified?

A. The flooding exposure is transition risk, while the regulatory exposure is physical risk.

B. Both exposures are physical climate risks because each could result in financial loss.

C. The flooding exposure is physical climate risk, while the regulatory exposure is transition climate risk.

D. Neither exposure is climate risk because climate risk is limited to environmental reporting.

ANSWER: C

Explanation:

The potential flooding disruption is a physical climate risk, while the effect of carbon regulation on borrowers is a transition climate risk. Physical risks arise from acute events and longer-term changes in climate conditions that can damage assets or disrupt operations. Transition risks arise from the process of moving toward a lower-carbon economy, including changes in policy, technology, markets, and consumer preferences. Both may affect several established risk categories.