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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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