SECTION A: MULTIPLE-CHOICE QUESTIONS

Indicate the correct answer to each question on the mark-reading sheet.

1. Which one of the following is an example of subjective uncertainty?

   1. physical laws.
   2. generic research.
   3. investments.
   4. space exploration.

2. A company has a fleet of 200 cars and, on average, 50 cars are damaged annually in accidents. The probability of such damage to a car is ...

   1. 0,15
   2. 0,25
   3. 0,50
   4. 0,20

3. Indicate the **correct** statement.

   1. Speculative risk deals only with those risks that have a loss or no-loss outcome.
   2. Core business risks include activities, decisions and events that have an indirect impact on an organisation's operating profit.
   3. The major subcategory of incidental risk is financial risk.
   4. Unsystematic risk affects an individual enterprise and is related to the rest of the economy.

4. Which of the following is an example of event risk for a motorcar manufacturer?

   1. fluctuation in sales
   2. the incompetence of production staff
   3. changes in the wages paid to workers
   4. the cost of components

5. The impact of corporate governance on business areas of the enterprise include the following:

   a. employing assets inefficiently.
   b. meeting social obligations.
   c. improving overall performance.
   d. attracting lower-cost capital.

   Choose the correct combination
   1. a,d
   2. a,b,d
   3. b,c,d
   4. a,b,c,d

6. The expected value is - - - -.

   1. always the mean of a set of outcomes
   2. the outcome multiplied by "n" (number of observations)
   3. the outcome multiplied by its probability of occurring
   4. none of the above

7. In terms of the King II Report, businesses should report on their - - - -

   a. transformation policy
   b. environmental management policy
   c. health policy
   d. remuneration packages of directors

   Choose the correct combination.

   1. a,b,c,d
   2. a,c,d
   3. b,c,d
   4. a,b,c

8. Enterprise risk management is characterised by - - - -.

   1. narrow focus on hazard risks
   2. a comprehensive, inclusive and proactive approach to risk management
   3. a functional approach to risk management responsibilities
   4. lack of consistency in terms of level of detail and reporting formats

9. The need for a more integrated and holistic view of risk management is emphasized by - - - -.

   a. change
   b. new business practices
   c. increase of insurance and the development of alternative risk transfer (ART)
   d. the increased value of intangible assets

   Choose the correct combination.

   1. a,b,c,d
   2. b,c,d
   3. a,b,c
   4. a,b,d

[TURN OVER]

[TURN OVER]

10. Indicate the **incorrect** statement.

1 Individual risks and interdependencies can best be addressed by an integrated team.
2 Traditional risk management is consistent and generates reliable reports.
3 The only objective of risk reporting is to increase risk transparency.
4 Business risk management adopts a portfolio view of all risks.

11. Hijackings in the centre of Johannesburg are a category four type of risk characterised by - - - -.

1 high frequency and high severity
2 high frequency and low severity
3 low frequency and low severity
4 low frequency and high severity

12. Which one of the following is a key characteristic of the traditional approach to risk management?

1 function driven.
2 proactive.
3 value based.
4 integrated.

13. Which one of the following is considered a traditional risk control measure?

1 fault tree analysis
2 quality assurance systems
3 hazard and operational studies
4 failure mode analysis

14. Internal factors that may influence the corporate and risk management objectives include - - - -.

a the natural environment within which an enterprise operates
b the infrastructure of the enterprise
c the technology used in the enterprise
d the personnel the enterprise has at its disposal

Choose the correct combination.

1 a,b,c,d
2 a,b,c
3 b,c,d
4 b,d

15. Which of the following are considered when establishing the potential frequency of losses?

a incident reporting
b national and international trends
c standing charges
d near misses

Choose the correct combination.

1 a,b,c,d
2 b,c,d.
3 a,b,c
4 a,b,d

16. The risk of a possible loss of items of relatively small value such as hand tools is best handled by - - - -.

1 avoidance
2 reduction
3 assumption
4 elimination

17. A properly designed risk framework for an enterprise serves the following purposes:

a prioritising and collecting of information.
b categorising risks
c formulating a common risk language
d identifying and prioritising risk exposures

Choose the correct combination.

1 a,b,c,d
2 a,b,c
3 b,c,d
4 a,c,d

Answer questions **18** and **19** by making use of the following information:

Company A uses short-term finance by issuing banker's acceptances. The treasurer expects short-term interest rates to rise and wants to hedge the next BA rollover. Assume that the following information applies:

Nominal amount	R1 000 000
Current date	4 April
Rollover/settlement date	20 July
Spot rate on 20 July	16,50%

FRA spot-rate offer   17,60%

The treasurer wants to hedge the next rollover by buying a forward rate agreement (FRA) at 17,60%.

18. In order to lock in a discount rate of 17,60% - - - -.

1   the bank will have to pay R2 712,33 to Company A
2   Company A will have to pay R2 712,33 to the bank
3   the bank will have to pay R4 685 to Company A
4   Company A will have to pay R4 685 to the bank

19. The cost (discount) of issuing the BA will be - - - -.

1   R40 684,93
2   R38 219,18
3   R35 506,85
4   R 3 452,05

20. In an effort to create a supportive work environment, enterprises are expected to do the following:

a   promote learning.
b   learn from experience.
c   improve reporting and capital allocation.
d   demonstrate management leadership.

Choose the correct combination.

1   a,b,d
2   a,c,d
3   b,c,d
4   a,b,c,d

21. A six-month put option is written on a commodity at a strike price of R85. The premium of the option is R0.50. The market price of the commodity at the time the option was written was R84. Three months after the option was written, the market price of the commodity dropped to R83.

Based on the above information, the buyer of the option will - - - -.

1   walk away from the option and lose the premium
2   walk away from the option and buy the commodity at a lower price on the market
3   exercise the option and make a profit of R1.50
4   exercise the option and make a profit of R2.50

22. An organisation's limit framework should include a combination of the following:

a   volume limits
b   portfolio level limits
c   value-at-risk (VaR) limits
d   stop loss limits

Choose the correct combination.

1   a,b,c
2   a,c,d
3   b,c,d
4   a,b,c,d

23. Which of the following are examples of alternative risk transfer (ART) techniques?

a   futures
b   swaps
c   risk securitisation
d   options

Choose the correct combination.

1   a,b
2   a,b,d
3   b,c,d
4   a,b,c,d

24. A fire-practice drill by staff for risk control purposes is an example of - - - -.

1   a physical measure
2   a procedural measure
3   education and training
4   a legal measure

25. Which of the following environmental factors contribute to the successful implementation of an ERM framework?

a   culture
b   performance management and compensation.
c   training and communications.
d   data and information systems.

Choose the **correct** combination.

1   a,b,c,d
2   a,c,d
3   a,b,c
4   a,d

26. Indicate the **correct** statement.

1   The credit risk attached to forward contracts is lower than that of futures contracts.
2   Futures contracts are more liquid than forward contracts.
3   Futures contracts tend to be more expensive than forward contracts.
4   Futures contracts are normally used to cover currency risk in international trade.

27. The benefits of including a monitoring stage in the risk management process include

a   accumulating evidence to support assumptions and results of the analysis
b   increasing the cost associated with improper or redundant risk control
c   identifying new or changing risks
d   improving the risk management process as a whole

Choose the **correct** combination.

1   a,b,c,d
2   a,b,c
3   a,b,d
4   a,c

28. Monitoring processes are generally applied to accomplish the following:

a   determine changes in an enterprise's risk profile
b   identify emerging risks
c   evaluate risk management performance
d   evaluate the adequacy of specific measures, policies and procedures

Choose the **correct** combination.
1   a,b,c
2   b,c,d
3   a,c,d
4   a,b,c,d

29. The reasons for aggregating the activities directed at achieving enterprise-wide risk include the following:

a   the cumulative effect of risk
b   increased efficiency and better decisions
c   improved reporting and capital allocation
d   simplicity

Choose the **correct** combination.

1   a,b
2   a,b,c
3   a,c,d
4   a,b,c,d

30. The following tasks create a basis from which to launch an enterprise-wide risk management strategy:

a   establishing an oversight structure
b   defining a common language and framework
c   summarising an extremely complex set of relationships
d   assessing risk management capabilities

Choose the **correct** combination.

1   a,b,c
2   a,c,d
3   b,c,d
4   a,b,d

[30 X 1 = 30]

SECTION B: PARAGRAPH QUESTIONS AND CALCULATIONS

Question 1

Compare the riskiness of the following sets of share prices collected over a four-month period.

SHARE A

Price	Expected value	Deviation	Squared deviation
R2 120	2152.50	-32.50	1056.25
R2 140	2152.50	-12.50	156.25
R2 170	2152.50	17.50	306.25
R2 180	2152.50	27.50	756.25
			2275.00

Variance	Standard deviation	Coefficient of variation
2275.00÷4	$\sqrt{568.75}$	23.85
= 568.75	= 23.85	$\frac{23.85}{2152.50}$ = 0,01

(4)

SHARE B

Price	Expected value	Deviation	Squared deviation
R2 510	2287.50	222.50	49506.25
R2 360	2287.50	72.50	5256.25
R2 120	2287.50	-167.50	28056.25
R2 160	2287.50	-127.50	16256.25
9150÷4			

Variance	Standard deviation	Coefficient of variation
99075÷4	$\sqrt{24768.75}$	$\frac{157.38}{2287.50}$
24768.75	= 157.38	= 0,07

(4)

Comment on the riskiness of the two sets of share prices. (2)

the coefficient of variation of Share A is less than
Share B therefore Share A is less risky than
Share B

[10]

Question 2

2.1 What are the limitations of the Companies Act 61 of 1973 in terms of corporate governance? (4)

1) does not address accountability and responsibility of the corporate to stakeholders

2) makes provision for financial reporting only and not for environmental and social matters

3) does not regulate non-audit services such as consulting with audit fees

4) difficult to make provision for dealings with board of directors despite the fact that legislation on corporate governance is quite expensive

2.2   Evaluate and comment on the benefits of the effective implementation of enterprise
      risk management (ERM).   (6)

1. Integrated organisational effectiveness

2. Better risk reporting

3) Improved business performance

                                                                              (10)

Question 3

3.1   Motivate how you as a financial manager would use financial statements to identify
      risks.   (4)

                                                                   [TURN OVER]

3.2   An organisation suffers a loss every 10 years. The average value of the losses is R500
      000. The probability that the organisation will suffer a loss of R500 000 during the
      financial year is one in 10 or 0.10.
      Calculate the expected annual loss.   (3)

      R500 000 × 0.10 = R50 000

3.3   Distinguish between forward and futures contracts.   (3)

      Forward
                    high level of credit risk
                    illiquid
      Future   traded on recognised exchange
                    low level of credit risk
                    liquid

                                                                              (10)

                                                                   [TURN OVER]

Question 4

A risk manager is instructed to determine the impact of a possible fire on the organisation. Motivate the methods that might assist the risk manager in determining the **severity** of such a possible loss for the organisation   (10)

Maximum Possible Loss (MPL) ...

Maximum Loss Expectancy (MLE) ...

MPL - like everything was destroyed

MLE - like fire but with ...
... on of spinkler ...
fire extinguishers ...

The ... that would be considered ...
between

(10)

[4 x 10 = 40]

TOTAL MARKS: 70

[TURN OVER]

**DO YOUR ROUGH WORK HERE.
NO ROUGH WORK WILL BE MARKED.**

[TURN OVER]

DO YOUR ROUGH WORK HERE.
NO ROUGH WORK WILL BE MARKED.

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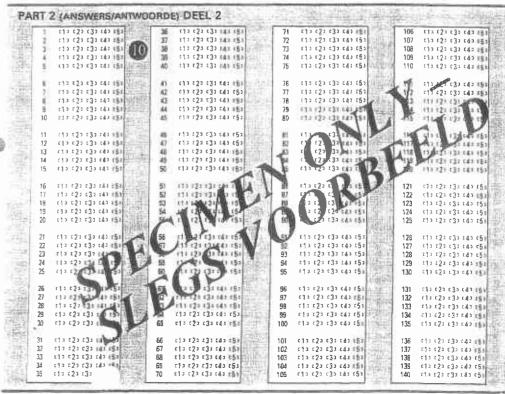For use by examination invigilator
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PART 2 (ANSWERS/ANTWOORDE) DEEL 2

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