

**MOCK TEST PAPER
FINAL COURSE: GROUP – II
PAPER – 6A: RISK MANAGEMENT**

Time Allowed – 4 Hours

Maximum Marks – 100

CASE STUDY: 1

Good Morning Ltd. is a start-up company specializing in three-dimensional modelling and solutions. The brainchild behind the company is Mr. Good and Morning who formulated the idea of providing 3D solutions to mid engineering is and engineers.

Before the foundation of the company, the founders hired a consultant to study the feasibility of the project whether they could establish various branches in major cities across the country and, offer solutions throughout the country and also ex- to select EU and US regions. The consultant after analysing all the aspects of a feasibility study including technical, economic and financial concluded that the project is feasible if the market is tapped within the next 18 months. He had employed various statistical techniques and tools in his detailed analysis.

For the purpose of formation of the company, the founders sold their idea and raised ₹ 20 crores by way of bank loan from Bank of London., Terms of the loan are as follows:

Loan Amount	–	₹ 20 crores
Rate of Interest	–	11.25 percent
Tenure	–	10 Years

They provided a joint property as collateral Security for an equivalent amount. Further, they also pooled ₹ 10 crores from known sources, from a foreign country. In order to safe guard their investment in the company; the foreign investors wanted a report on;

- (i) RBI's guidelines on Credit Default Swap (CDS),
- (ii) How the Basel II norms were applied in the Indian banking sector and the risk management measures with regard to loans sanctioned by them,
- (iii) risk appetite of the management,
- (iv) how various risks are addressed by management,
- (v) forming of risk management committee by the company
- (vi) uncertainties existing in the industrial climate,
- (vii) periodic audits to be carried out and
- (viii) the BCP mechanism

Expected revenue of the company are as follows:

2020-21	–	₹ 18 crores
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2021-22 - ₹ 27 crores

2022-23 - ₹ 32 crores

10% p.a. growth from thereafter.

Also, the founder were informed that the key to measure the success of the project is proper accounting. An ERP was implemented to record the financial transactions and several controls were put in place to prevent/detect any undesired events from occurring.

Recently Mr. Good learnt from a journal that organizations possessing details of EU citizens must comply with the stringent GDPR regulations. In case the organization need to comply with GDPR, there should be proper framework built in the organization.

Further they learnt that the Companies Act 2013 requires a company's Board to develop and implement a proper risk management policy to identify those risks that cause a doubt on the going concern assumption of the company.

The company was keen to adopt sound Risk Governance Practices as well as the company grows. However, a major risk that the company faces is the technology that constantly changes.

The company has planned to provide solutions to customers located abroad as well. In that case, the company would be receiving the foreign currency.

The founders are worried about the volatility of the market and thus would like to cover their exposure by taking an appropriate position in the market.

Descriptive Questions

- 1.1 Explain briefly the key features of Reserve Bank of India guidelines on CDS. **(6 Marks)**
- 1.2 Differentiate between Credit Insurance and Credit Default Swaps. **(6 Marks)**
- 1.3 Explain the methods of Estimating Probability of Credit Default. **(3 Marks)**

Multiple Choice Questions

Choose the most appropriate answer from the given options:

- 1.4 Before commencement of the project, various risks factors have to be considered for feasibility study. In a case where a project feasibility is based on a particular land acquisition and the cost of treating it in terms of legal fees is much higher, the appropriate recommendation the consultant would provide is to

 - (a) terminate the Project
 - (b) treat the Project
 - (c) transfer the Project
 - (d) continue the Project

- 1.5 The Delphi technique is a method which involves getting opinion on a process

 - (a) from an Individual

- (b) from Group of Individuals
- (c) from Regulator
- (d) None of the above

1.6 Which of the following is not an Internal risk?

- (a) Economic factors as price fluctuations, changes in consumer preferences, inflation, etc.
- (b) Technological factors unforeseen changes in the techniques of production or distribution resulting into technological obsolescence etc.
- (c) Physical factors such as fire in the factory, damages to goods in transit, etc.
- (d) Human factors as strikes and lock-outs by trade unions; negligence and dishonesty of an employee; accidents or deaths in the factory etc.

1.7 The concept of risk-based maintenance is an advanced form of

- (a) Probability Centered Maintenance
- (b) Risk Centered Maintenance
- (c) Control Centered Maintenance
- (d) Reliability Centered Maintenance

1.8 Operational risk is an overarching concept interrelated with

- (a) several other types of risk, and can. be viewed in isolation.
- (b) several other types of risk, and can be viewed with no financial impact.
- (c) several other types of risk, and cannot be viewed in isolation
- (d) None of the above

(2 x 5 = 10 Marks)

CASE STUDY: 2

AFL, an MNC whose net worth is £ 12 Billion is sole producer of 'Nikhar' chewing gum, the latest craze in India in replacement of tobacco. With the increasing sale in some of the previous years, the company has managed to secure all necessary funding for rapid expansion of its product as not only it gained popularity in India but also in neighboring countries such as Bangladesh, Pakistan and Nepal. The factory is situated in backward district of Haryana.

Recently one 'NGO' named 'Nasha Mukti' started misgiving about the product amongst the key sections of society. And, there are no such regulation that it cannot be sold to people less than 18 years of age as it does not have any harmful effect. However, some health professions have also joined the mission of NGO as to the long-term effects of the product.

Due to all these reasons a further research on this is planned by Ministry of Health. The Board of Director's are hopeful of increase in its sales amongst adult and also rise in exports to neighboring countries.

Further Board is also interested in introducing advanced technologies that allows different branches (modes) to securely propose, validate and record state of changes (or updates) to a synchronized ledger that is distributed across worldwide.

However, Board has little time to combat with the issues that are managed at Corporate Level and concentrate on expansion plans.

AFL's has developed Enterprise Wide approach to risk management and is communicated. Also, the Risk Register in place.

Risk Strategy and policy is in place and is communicated and also the Risk appetite is defined. Though no capital budgeting analysis has been carried out however in case the whole project is failed there is expected loss of about £ 1 Million.

Descriptive Questions

2.1 You are required to answer the following questions:

(a) Defining the different stakeholders involved and assessing the impact upon them of the Risk.

(5 Marks)

(b) Available Risk Treatment Options.

(4 Marks)

(c) Explaining the Risk Maturity Level of the company.

(2 Marks)

(d) Various types of Political Risks to which company can be exposed to. **(4 Marks)**

Multiple Choice Questions

Choose the most appropriate answer from the given options:

2.2 The risk manager would like to know the risk that refers to ineffective and unethical management of a company by its executives and managerial levels. The risk is known as

(a) Staffing Risk

(b) Management Risk

(c) Strategic Risk

(d) Governance Risk

2.3 While taking a decision, the category risk profile bucket that would most likely to escape attention of the Management is

(a) High Impact-Low Probability

(b) Low Impact-Low Probability

(c) High Impact-High Probability

(d) Low Impact-High Probability

2.4 Before commencement of the project, various risks factors have to be considered for feasibility study. In a case where a project feasibility is based on a particular land acquisition and the cost of treating it, in terms of legal fees is much higher, the appropriate recommendation the consultant would provide is to

(a) terminate the Project

(b) treat the project

(c) transfer the project

(d) continue the Project

2.5 Which of the following would NOT be included as a principle in determining the risk appetite of the company?

- (a) Risk appetite is not a single, fixed concept.
- (b) Risk appetite can be complex.
- (c) Risk appetite needs to be measurable.
- (d) Risk appetite is about identifying opportunities.

2.6 Annual Report of the Board of Directors must include a statement indicating the development and implementation of a risk management policy for a company. This is mandated by

- (a) SEBI through 'Issue of Capital and Disclosure Requirements Regulations
- (b) Information Technology (Amendment) Act, 2008
- (c) Companies Act, 2013
- (d) Prevention of Money Laundering Act, 2002

(2 x 5 = 10 Marks)

CASE STUDY: 3

Clip, a Bengaluru based video content platform, was marked as one of the most promising start-ups in sunrise sector: Social media or content. Clip (Transversal Tech Pvt Limited) had attracted a few million users and scores were signing up every day. The app allowed users to create, edit and share 60 second video clips. Imagine Tick Tok, but slightly longer videos. This start-up had received around \$7 million from Shunwei Capital, Matrix Partners and India quotient and it was looking to raise another \$25-30 million to accelerate its expansion.

However, after many months of discussions, Clip was turned down by every investor it approached. Finally, in a distress deal, it was bought by Share chat (Mohalla Tech Private limited) another Social Media platform, earlier this year.

What had caused Clip's demise was the entry of Chinese content giants Byte-Dance and Kwai, which threw hundreds of millions of dollars to wow Indian users. Clip stood no chance against their financial might and technological expertise. Not just Clip, the threat posed by Byte-Dance, Kwai and other Chinese content platforms effectively ended investments into new content start-ups.

The rapid decline of Clip, and of investments into new content start-ups, illustrates the difficulties facing Indian internet companies.

Since 2017, overall investments into Indian start-ups have accelerated in value. Since the start of 2018, the numbers of unicorns, or Start-ups valued at more than \$1 billion, have nearly tripled. Mega funding rounds have again become the norm at fast growing start-ups.

Despite Internet start-ups not being able to scale up and attract right kind of investments, we are witnessing massive funding in start-up funding. Just what is the paradigm shift that is happening?

Descriptive Questions

3.1 Design any 4 risk scenarios in the following format out of the risk scenarios given in the exhibits

Risk Scenario	
Brief description of the current scenario	
Impact of the Scenario	
Risks involved and ways to manage it	

(15 Marks)

Multiple Choice Questions

Choose the most appropriate answer from the given options:

- 3.2** What caused the start-up Clip to be taken over by another start-up?
- (a) Entry of Chinese content giant.
 - (b) Decrease in the number of users.
 - (c) Lack of scalability
 - (d) Lack of experience
- 3.3** What does evidence show regarding picture about the internet start-up system?
- (a) Number of start-up deals decreased in 2017 and 2018 from the respective year ago periods.
 - (b) Number of start-up deals increased in 2017 and 2018 from the respective year ago periods.
 - (c) Lack of availability of funding
 - (d) Number of start-ups have neither increased nor decreased.
- 3.4** Reason for decline in the overall volume in new start-up formation is due to
- (a) the threat posed by Chinese and American internet firms
 - (b) inability of the start –up to attract funding.
 - (c) lack of experience of the start-up entrepreneurs
 - (d) concentration of funding in a few hands
- 3.5** Fall in deal volume is due to
- (a) start-up eco system is starting to become more realistic about the potential of the Consumer market
 - (b) risk aversion on the part of entrepreneurs
 - (c) entry of in experienced entrepreneurs
 - (d) lack of risk taking ability and understanding the consumer behaviour.
- 3.6** What is the significant improvement in the internet start-up system?
- (a) Entry of more entrepreneurs
 - (b) Easy availability of angel funding
 - (c) Improvement in the quality of entrepreneurs and start-up ideas
 - (d) Availability of series-A funding

(2 x 5 = 10 Marks)

CASE STUDY: 4

ABC Limited, a listed company, announced the appointment of AG as the company's first lead independent director. Despite opposition by few shareholders, the management offered justifications for the new structure to be more independent and investor friendly. Investors liked the idea and the announcement brought positive sentiments to the falling stock prices which increased to ₹ 75.10, the next day of the announcement. It proved that investors were optimistic about the future of the company and expected better financial results. AG was actually appointed and responsible to response to the present state of affairs of the company. The company had been actually witnessing and struggling in the months to address certain corporate governance challenges. Proxy advisory firm, XYZ, raised alarms and questioned executive compensation package in the years of falling performance. A small shareholder filed a law suit against Board of Directors misuse of corporate funds.

RG, the present Chairman and CEO, was working with the company since last sixteen years and was a close family friend of promoters. His leadership style being democratic was liked and praised by everyone. He was often found meeting people at all levels within the organisation and called for trying new things. His philosophy diminished conflicts and tensions in pursuit of goal setting and achieving. He believes that as long as dividend is paid to shareholders and earnings per share increases, the market values the stock. In the last AGM, he said "The recent decline in financial performance is taken as a publicity stunt by few self interested groups. The company is on its way towards bright future ahead".

The Income Statement Summary of ABC Limited for last three years:

Particulars	Year 2017	Year 2018	Year 2019
Revenue (₹ Crores)	13938	13696	13373
Expenses (₹ Crores)	9608	9420	9119
Operating Income (₹ Crores)	4330	4276	4254
Stock Price (₹)	65.64	61.00	58.4

Shareholding pattern at the end of Year 2019:

Type of Shareholder	Percentage Stake
Promoters	51.60
Mutual Funds	7.25
Domestic Financial Institutions and Banks	24.75
Foreign Institutional Investors	10.40
Corporate Bodies	4.60
Individuals	1.40
Total	100

Descriptive Questions

- 4.1 What should RG and other members of the BOD do? (4 Marks)
- 4.2 Identify the type of governance risk involved in ABC Limited? (4 Marks)
- 4.3 The shareholding of foreign institutional investors is 10.4 percent. Which risk do they face and suggest appropriate tools to measure it? (7 Marks)

Multiple Choice Questions

Choose the most appropriate answer from the given options:

- 4.4 Which of the following is called Governance Risk?

- (a) Risk of management override, deliberate acts of omission
 - (b) Ineffective and unethical management of a company by its executives and managerial levels
 - (c) Inability of management to meet its process related objectives
 - (d) Management interference in day-to-day operations.
- 4.5** Which of the following is not an index for Country Risk Analysis?
- (a) Democracy Index
 - (b) Global Peace Index
 - (c) Human Perception Index
 - (d) Gini Coefficient
- 4.6** is necessary to evaluate all types of risks impacting all categories of stakeholders and find solutions to pre-empt the threats before the risk occurs.
- (a) Stakeholder Risk Management
 - (b) Country Risk Management
 - (c) Shareholder Risk Management
 - (d) Enterprise Risk Management
- 4.7** OECD Guidelines for corporate governance does not include
- (a) Disclosures and Transparency
 - (b) Role of shareholders
 - (c) Responsibilities of the board
 - (d) Institutional investors, stock markets and other intermediaries
- 4.8** Opportunities under Risk and Opportunity Disclosure in the Annual Report would not include
- (a) Value realization of by-products by exploring new areas
 - (b) Creating differentiation through acceleration of new product development
 - (c) Securing raw material supplies
 - (d) Volatility in financial markets and fluctuations in exchange rates

(2 x 5 = 10 Marks)

CASE STUDY: 5

The auditors of ABC Transportation Networks the debt-laden, listed subsidiary of the infrastructure finance company ABC Ltd. have red-flagged the risks faced by the company.

In its limited review report, the statutory auditor has drawn the company's board of directors attention to the "existence of material uncertainty on the company's ability to continue as a going concern" and the "management plan to raise funds."

The observation was made in reference to the notes to ABC's financial results for the quarter ended June 20, 2018. The closely-held ABC, which owns almost 72 per cent in ABC Transportation Networks, has tapped its shareholders including the likes of XYZ Insurance Corporation of India, Apex Corporation of Japan, Sakar Investment Authority, and PQRS to raise ₹ 4,500 crore through equity rights offering.

BIS Capital Markets is understood to have arrived at a fair value of ₹ 349 a share for ABC. PQRS, which holds 9 per cent in ABC, will take a final decision on the investment once the rights issue price is announced.

According to an August 7 report by credit rating agency RACI, ABC Transportation Network's liquidity will continue to remain stretched due to sizeable near-term debt repayment obligations, high refinancing risk and high dependence on external funding support to project Special Purpose Vehicles (SPVs). The 'outlook' for the 'standalone debt' of ABC Transportation Networks may be revised to 'stable' if the company achieves meaningful progress on planned avenues of cash inflows and deleverages its balance-sheet that would strengthen the financial risk profile.

The notes to the June 30 financial accounts — signed by ABC Transportation Networks managing director and the one the company's auditors have referred to — for the quarter ended June 30, 2018, says: "Though the company has incurred losses during the current quarter and credit rating of some of its borrowings have been downgraded in the recent period, management is taking various initiatives including monetization of assets, raising of fresh capital through rights issue of equity shares, refinance of debt in matured annuity projects and other strategic initiatives to address any uncertainty relating to repayment of borrowings in next twelve months and to create sustainable cash flows.

Accordingly, the financial results continue to be prepared on a going concern basis, which contemplates realisation of assets and settlement of liabilities in an orderly manner."

The ABC Transportation Networks board had approved a ₹ 3,000 crore rights issue on July 27, 2018. Credit rating agencies have downgraded ABC Transportation Networks's bank facilities and debt securities which do not have ABC backing via under the 'Debt Service Reserve Account' (DSRA) — where an issuer opens a DSRA account and funds it (post allotment of securities) by an amount equal to the next scheduled debt obligation. The amount is raised if credit rating dips.

ABC Transportation Networks suffered loss of ₹ 285 crore for the June quarter against a profit of ₹ 34.89 crore in the year-ago period. The company's total debt would be around ₹ 35,000 crore. ABC/ ABC Transportation Networks spokespersons did not comment on the auditor's remarks.

Descriptive Questions

- 5.1** Elaborate the various risks being faced by the ABC Transportation Networks. **(9 Marks)**
- 5.2** Discuss the steps which have been taken by the management of ABC Transportation Networks to counter the risks as mentioned above. **(6 Marks)**

Multiple Choice Questions

Choose the most appropriate answer from the given options:

- 5.3** The concept of risk-based maintenance is an advanced form of
- (a) Probability Centered Maintenance
 - (b) Risk Centered Maintenance
 - (c) Control Centered Maintenance
 - (d) Reliability Centered Maintenance
- 5.4** The terms risk and uncertainty are often used in the corporate scenario. The measurement of uncertainty is
- (a) a set of possibilities assigned to a set of possibilities
 - (b) a set of probabilities assigned to a set of possibilities
 - (c) a set of risks assigned to a set of uncertainties
 - (d) a set of uncertainties assigned to a set of risks.
- 5.5** Which is not a drawback of Scenario Analysis?

- (a) Assumes that the scenarios are equally probable
 - (b) Subjective in deciding how serious the risks are
 - (c) Implausible losses might be considered
 - (d) Considers the correlations between the risk factors
- 5.6** Which one of the following helps to related characteristics of an event to the probability and severity of the operational losses?
- (a) Monte Carlo Simulation
 - (b) EWMA Model
 - (c) Statistical Analysis
 - (d) Factor or Casual Analysis
- 5.7** Risk probability and impact assessment generally finds answers to the following questions EXCEPT
- (a) what is control in the business in similar type of industry?
 - (b) what will it cost the business if it does happen?
 - (c) the probability and impact Matrix indicates which risks need to be managed.
 - (d) what is the probability that a risk will occur?

(2 x 5 = 10 Marks)